THE FREEMAN

IDEAS ON LIBERTY

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SEPTEMBER 1986

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The Farm Problem

20 chapters—17 authors

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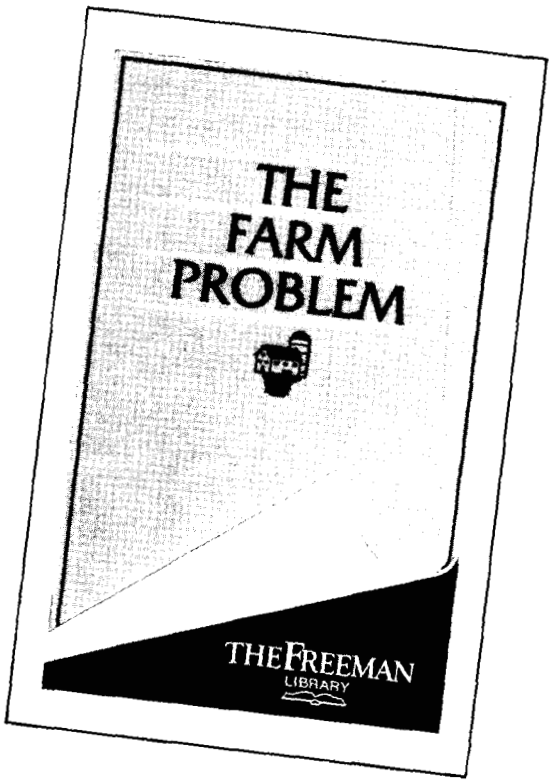

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IDEAS ON LIBERTY

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Brian Summers

Editorial Adviser: Paul L. Poirot
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Contributing Editors: Howard Baetjer Jr.
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Gregory F. Rehmke
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Production: Laurel A. Mascola

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The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

PERSPECTIVE

Spirit of Liberty

Since the spectacular July 4th weekend celebrating the 100th anniversary of the Statue of Liberty, America has been enjoying a period of euphoria. With much flag waving we have rejoiced in the remarkable way people from all parts of the world have melded into a single nation. Race, color, or creed offer no serious barrier to becoming a successful scientist, business owner, shopkeeper, teacher, or entertainer.

The spirit of liberty, as epitomized in the Statue, has been responsible for this record of achievement. That spirit of liberty offers opportunity to any who dare to try, to struggle, and to work. However, the spirit of liberty can be snuffed out by well-meant attempts to protect the "tired, the poor, the huddled masses."

Tax funds that finance "safety nets" can discourage the incentives of those who are less fortunate to improve their own situations. And the collection of taxes from those who must pay the costs hamper the efforts of those who could contribute the very most.

The market economy is remarkably resilient. In spite of the many obstacles that have been placed in the path of entrepreneurs over the years, they continue to show energy and initiative. And so long as freedom of entry into various occupations and businesses is not seriously restricted, so long as producers are not discouraged by high taxes and rigid regulations, newcomers will always be welcome for the contributions they can make. There is no limit to the number of new arrivals who can be accommodated in such a free market economy. However, if people come here because of the "welfare state," because of government-financed "safety nets," there is a limit to the number of people who can live within our borders. Production and living standards would then decline and newcomers would find

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themselves in constant conflict with those who came here before.

Disillusionment with some of our socialistic experiments has developed, and tentative attempts have been made to limit government, reduce taxes, deregulate, and privatize. If these attempts eventually do succeed, it will be a sign that perhaps the Statue of Liberty is not 100 years old, but 100 years young. Its torch will then continue to shine as a beacon of hope to persons throughout the world. It will tell them that here they can find, not security, but what is more important, liberty and freedom of opportunity.

—BBG

If Men Could Fly

We tend to ask questions only about the unusual event. The everyday happening rarely excites our curiosity. We see a bird in flight and yawn. Were we to see a man flying unaided through the air we would immediately start an investigation.

This poses a problem for the student of liberty. Our children, beneficiaries of the free market in a free society, take prosperity for granted. The laden shelves and burgeoning freezers in the local supermarket stimulate no questions. Bare shelves and empty freezers might.

Yet "bare shelves and empty freezers" historically are the norm! The vast majority of men and women who have walked this planet have spent their every waking hour in a struggle to keep destitution at bay. The puzzling exception which cries out for explanation is the plenty enjoyed by the beneficiaries of economic and personal liberty. If we teach our children the lessons of history, we may elicit the questions only free market economics can answer.

—John K. Williams
Visiting Scholar

Op-Ed Update

The Freeman's op-ed newspaper program, in which we send *Freeman* articles to a select group of newspapers for use on their editorial or commentary pages, continues to expand. Sarah H. Lindsey's "Educational Freedom" (June *Freeman*) has appeared in *The Augusta Chronicle, The Anchorage Times,* Fort Walton Beach *Daily News, The Phoenix Gazette,* and *The Orange County Register.* Peter S. Heinecke's "The Fallacy of Comparable Worth" (June *Freeman)* has been published by the *Gettysburg Times,* Chicago *Sun-Times,* and Long Island *Newsday.* James L. Payne's "It's Not Our Money" (June *Freeman*) has been used by the *Chicago Tribune*. And Dennis Bechara's "The Continuing Plight of Agriculture" (May *Freeman*) continues to be reprinted, most recently by the North Fort Myers *Lee Constitution*.

If you see one of our articles, we would appreciate it if you would send us a clipping.

Spanish Books from FEE

For readers of Spanish—Hispanic newcomers to these shores and students of the language—it is difficult to obtain books which explain the free market, private property, limited government system. To fill this need, The Foundation has stocked books from Spanish language publishers in Central America and Spain. Titles include *The Law* by Frederic Bastiat, *The Incredible Bread Machine* by Susan Love Brown and others, *Economics in One Lesson* by Henry Hazlitt, *Planning for Freedom, Liberalism, Economic Policy,* and *Human Action* by Ludwig von Mises, and *The Essential von Mises* by Murray Rothbard.

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The Selling of Freedom

by Dennis L. Peterson

Entrepreneur and multimillionaire W. Clement Stone wrote, "Whatever your profession, you are selling something: ideas, concepts, goals, beliefs, values. While many persons think of selling only as offering a product or service for profit, you begin to sell the day you were born and will continue to sell throughout your life."

That statement is especially true in regard to the freedom philosophy. Although many people assume that this philosophy is passed on merely through tradition or in the formal, organized economics and government courses of certain schools, it is primarily transmitted by individuals through a daily selling process. And this process goes on not simply in classrooms but throughout the nation with the countless interactions of individuals during their everyday lives. We are constantly selling our ideas, goals, beliefs, and values.

Every believer and practitioner of the freedom philosophy is, whether or not he or she recognizes the fact, a salesman for those beliefs. Some individuals are good salesmen, some are mediocre salesmen, and others are downright poor salesmen. Those of us who sincerely want to be "supersalesmen" for freedom would do well to periodically review our sales strategies and practices. The effective selling of freedom requires that we develop and incorporate certain essential sales qualities. The degree of our success is determined by how closely we follow these time-tested qualities.

Methodology

The most lasting method of selling the ideas of freedom is through positive education. As the editors of *The Freeman* have stated, "Though a necessary part of the literature of freedom is the exposure of collectivistic clichés and fallacies, our aim is to emphasize and explain the positive case for individual responsibility and choice in a free economy. Especially important, we believe, is the methodology of freedom: self-improvement, offered to others who are interested. We try to avoid name-calling and personality clashes and find satire of little use as an educational tool."

The freedom philosophy cannot be forced on anyone. Others must recognize for themselves the advantages of freedom and choose it voluntarily. As the late Leonard E. Read wrote in his essay "On Improving the World" (reprinted in *The Freeman,* November 1983), ". . . the practice of freedom cannot depend on coercion. When it comes to influencing another to think and act creatively, to help advance another's understanding, one is limited to the power of attraction."

Many well-intentioned freedom-lovers are too impatient, however, to wait for this "positive attraction" strategy to bring results. Like their socialist opponents, they want immediate results. Consequently, they sometimes turn to political actions that bring either short-term solutions or—far worse—total disillusionment among the waverers. Their "action strategy" tends to lead to confrontation and alienation rather than to conversion, acceptance, and positive long-lasting change. As William Penn wrote in *Fruits of Solitude* (1693), "Truth often suffers more by the heat of its defenders than from the arguments of its opposers."

Tolerance

One characteristic which should always distinguish the salesman of freedom from the spokesman for socialism is a tolerance of and respect for contrary views and opinions. It is this quality which enables one to debate an opponent without "losing his cool" and without fear that the truth will lose its credibility.

Mr. Peterson is a free-lance writer in East Greenville, Pennsylvania.

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Thomas Jefferson recognized the power and resilience of truth and the need for tolerance of opposing and even false views. "Error of opinion may be tolerated," he said, "where reason is left free to combat it."

The need for such tolerance does not diminish if only a few people—even seemingly insignificant and noninfluential ones—hold a minority viewpoint. "If all mankind minus one were of one opinion and only one person were of the contrary opinion," John Stuart Mill argued in his essay *On Liberty,* "mankind would be no more justified in silencing that one person, than he, if he had the power, would be justified in silencing mankind."

Example

In the world of business, consumers are more easily convinced to buy a product if the seller uses it himself. The satisfaction evident from the use of his own product will often produce the enthusiasm and conviction required for him to close the sale.

In our attempts to sell freedom, we should consistently practice the principles we espouse and defend. If we say we believe in a balanced budget and fiscal responsibility for government, we should insist on such practices in our own finances. If we preach rule by law, we should obey the law. Our primary task as salesmen of freedom is to persuade, not by conflict or coercion but by precept and example. As Leonard Read wrote in *The Path of Duty,* "Let each become an exemplar of freedom."

Knowledge

Every effective salesman knows his product like the back of his hand. He knows its weaknesses as well as its strengths, its limitations as well as its capabilities. He will anticipate both the reactions and the objections of his prospects. And, most important of all, he will never stop learning about his product, his customers, and his strategies.

Similarly, we proponents of freedom must be perpetual students of our philosophy. Rather than claiming to be the sole possessors of truth, we should readily admit our relative ignorance and eagerly seek to learn more. Anything we might know about the theory and practice of freedom is infinitesimal in comparison to the vast amount out there yet to be known.

Repetition

As a teacher I learned that one cannot expect all students to grasp a fact or concept when it is initially presented. Information must be repeated until the student understands. But the student's ability to regurgitate a fact or concept does not mean that he or she has "learned." The information must be acted upon and become a part of each individual's life.

The salesmen of freedom cannot afford to be satisfied with giving their "sales pitch" just once. In order for it to be accepted and applied, it must be repeated to each new generation. And even those who have already heard it need to be reminded every so often. Statist propaganda so dominates the media today that we sometimes begin either to believe it ourselves or to think that we are the sole surviving freedom-lovers.

Optimism

Lord Beaverbrook wrote in *The Three Keys to Success,* ". . . salesmanship requires, above all, the spirit of optimism."

Perhaps one of the greatest weaknesses of those who oppose statism in favor of individualism is the tendency to be pessimistic concerning the prospects for a return to freedom. I must admit that I, too, at times succumb to this temptation. What we must remember, however, is that few people are willing to embrace as their own any philosophy whose advocates are pessimistic or unenthusiastic. They choose rather to follow a path of optimism, a way that is promising and hope-inspiring.

In their attempts to alert others to the dangers of statism, many freedom-lovers unwittingly exude an air of doom, despair, and depression. Of all people, it is we—those who have experienced, both personally and vicariously, the promise and prosperity of freedom and individualism—who should be spreading such hope and positive expectation that others are magnetically attracted to freedom's way.

Jesse Stuart, famous writer and teacher from the hills and one-room schoolhouses of Ken-

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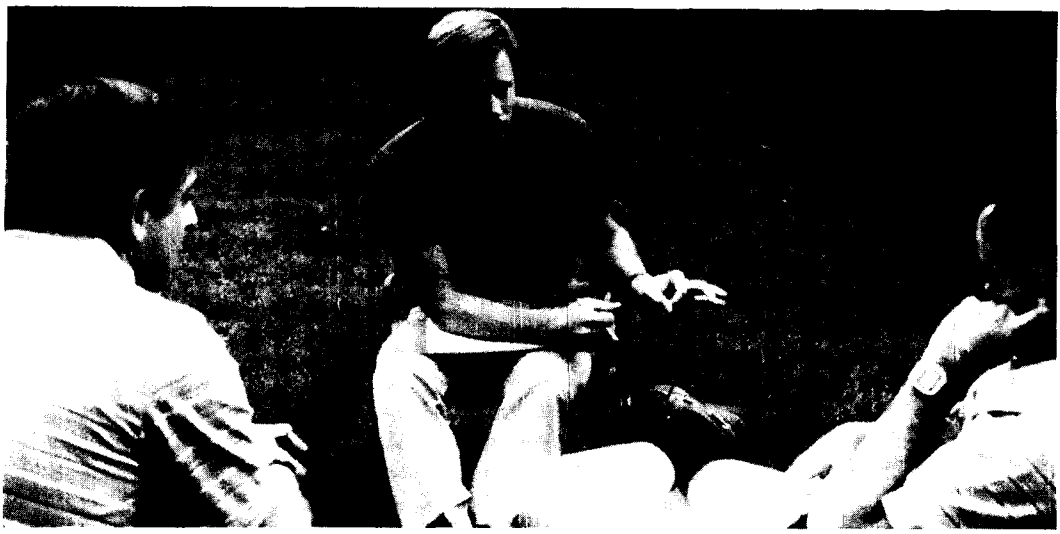

Exchanging ideas on the freedom philosophy during a FEE seminar.

tucky, recognized the infectious nature of enthusiasm in his teaching. He wrote in *The Thread That Runs So True,* ". . . when I am enthusiastic about my teaching, (the students) are enthusiastic. When I am depressed, they seem to be that way, too. Their feelings seem to rise as high as my feelings are high or as low as mine are low. Therefore I have tried to be as enthusiastic as I can about any subject I teach."

Moral Principles

No theory or doctrine long survives unless it has as its foundation sound moral principles and absolute truth. Possession of correct economic or governmental principles, in particular, is practically impossible without first having a firm foundation of morality.

During the past two decades, a philosophy of *amorality* has gained wide acceptance. This erroneous philosophy holds that there are no absolute moral values or principles. The only morality is that held by each individual, and since each individual views things differently, no single moral value can be the same for everyone. This amorality promotes a hedonistic, end-justifies-the-means way of life. It leads eventually to both economic and political as well as moral decay.

In a nation with a diversity of moral and religious views, where guarantees against the establishment of a single state religion are built into the political structure, it is impossible to dictate matters of conscience. But there are nonetheless certain principles of morality that are generally held by all reasonable citizens. Most religions of the world, for example, teach the sanctity of human life, therefore we have laws against murder. Private property is another widely accepted principle, therefore we have laws against burglary, theft, and embezzlement.

Perhaps the two greatest statements of moral principle are the Ten Commandments and the Golden Rule. While these are generally associated with the Judeo-Christian heritage, they are applicable to and effective in *all* societies willing to test them. It is significant that throughout human history there has always been a close association in economically and politically free nations between their commitment to these moral principles and their economic, cultural, and political success and prosperity.

Among the salesmen of freedom, this promotion of morality is best accomplished by the exemplary life of each individual. Actions truly speak louder than words. As someone once wrote, "I'd rather *see* a sermon than *hear* one any day."

Students of liberty have an excellent "product": personal, economic, and political freedom. Our methods are time-tested and effective: positive education and worthy examples. The only thing we need is more good salesmen.

Are you such a person? Will you do your part to fill this need? □

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Memories of the 1923 German Inflation

by Edgar Bissantz

For decades prior to World War I, the German mark enjoyed a relatively stable exchange rate of about 24 cents against the U.S. dollar. However, during the war, the German government paid its bills by printing large quantities of marks. Because of the resulting inflation, by the war's end in 1918 the mark had fallen to about six cents against the dollar.

Few people today remember that immediately after the war, many U.S. citizens, often at the urging of their bankers, purchased German marks as investments. The bankers pointed out that, although Germany was being asked to pay the Allies huge reparations, the country's land and buildings were essentially intact. Thus, many investors reasoned, the economy would be quickly restored by her industrious people. The mark would regain its "normal" value of 24 cents, which would yield a potential 300 per cent profit to investors. Unfortunately, the bankers did not take into account the fact that the German printing presses were continuing to turn out paper marks, and that the value of the mark was still falling.

My father's banker in Wichita persuaded him to buy $1,000 worth of marks to remain on deposit in a German bank in the seaport of Bremen. My father soon received a bank statement crediting him with what was then a substantial number of marks. After that, other statements arrived at regular intervals, their balances always listing certain deductions for the cost of postage, carrying charges, and letters written.

At the same time, the value of the marks was being eroded by the continuing inflation. But American investors were scarcely aware of that. Finally, in 1923, the value of my father's account had become so small that it was a nuisance for the bank. My father was asked to withdraw his balance in full.

As I was about to depart on a student tour of Europe, my father forwarded the statements to me. He asked me to visit the bank on my stopover in Bremen, close out the account, and take the money to use on my tour. Little did my father realize what was going on.

By the time I checked into my hotel in Bremen, the collapse of the German currency was in full swing. The existing currency had been overprinted to raise their denominations by millions or billions of marks. Cities and towns were printing their own paper money, of value only locally and momentarily. Merchants refused to give up their wares for the German paper money that was losing value from minute to minute. Few pedestrians were to be seen, and there was no vehicular traffic at all. The streets of the great seaport were practically deserted. One could walk without fear right down the middle of the street. Business had come to a standstill.

I found the bank, closed my father's account, and received in settlement a few paper notes—then practically worthless. I placed them in a letter to my father and went to the post office. Several women, each seated behind a large basket of paper money, were officiating. One took my letter, weighed it, and wrote in pencil the amount of postage in the corner of the envelope—by that time postage stamps were a thing of the past—and gave me three bills from her basket in change. The postage to mail the letter to my father cost more than the marks in the envelope! Alas, my father's thousand dollar bank account had disappeared with the inflation.

Those three mark notes that I received from the Bremen postmistress many years ago—a million mark bill issued by the Freie Hansestadt Bremen, a ten million mark bill, and a thousand mark bill overprinted for one billion marks—have been framed and still hang over my desk, as a reminder that only where government can print paper money, without regard for anything of value, can such a thing happen. □

Edgar Bissantz, a retired architect, resides in Santa Barbara, California

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Inflation, Money, and Freedom

by Jay Habegger

It is widely believed that the coining of money is a proper function of government. In reality, however, state control of the money supply leads to a destructive inflationary spiral. All those who hold cash, especially those on fixed incomes, ultimately bear the economic burden of state-sponsored inflation. Inflation reduces real wages, diminishes living standards, and destroys investment opportunities.

The state can offer no solution to these problems. Only by allowing the market to operate unfettered with regard to money can there be an assurance of a stable, noninflationary currency. Only freely acting individuals can provide the consumer with an alternative to the inflation and uncertainty of the present government monopoly over money.

Inflation is caused by a government-sponsored expansion of the money supply. Only fiat currencies—backed by nothing more than a government decree, and not by a fixed resource such as gold—can be rapidly expanded, and thus produce high rates of inflation. Due to the limited availability of gold, currencies fully backed by gold are susceptible to only a negligible rate of inflation. As long as the state possesses control over the money supply, however, the potential for rampant inflation remains.

Even a "gold standard" is no guarantee against government-sponsored inflation. Adam Smith recognized this as early as 1776, and wrote in the *Wealth of Nations*, ". . . the avarice and injustice of princes and sovereign states, abusing the confidence of their subjects, have, by degrees, diminished the real quantity of metal, which had been originally contained in their coins."[1] Economic distress, coupled with political opportunism, will lure the state and its agents to abandon the gold standard and institute fiat paper in its place.

Governments have shown time and again that they are unable to maintain the political discipline needed to avoid fiat money inflation. Even the institution of legal barriers to monetary growth have had little effect. During the French Revolution of the 1790s, legal limits on the amount of currency in circulation were repeatedly made by the French Assembly with little success.[2] The limits on inflation were consistently broken, which led to new legislated limits, which in time were also ignored. Short term political benefits such as re-election or national prestige usually take priority over monetary sanity.

Indeed, even the economic knowledge and experience available in our time have not prevented modern politicians from following the siren call of fiat paper. While some measure of monetary stability was attained prior to World War II, when most nations maintained a token adherence to the gold standard, the gold standard was abandoned by almost all countries after the war. The resulting age of floating exchange rates, rampant inflation, and general

Jay Habegger is a sophomore at the University of Colorado at Boulder. He was an intern at FEE this past summer, preparing research materials for the 1986-87 high school debate topic.

This essay was a runner-up in The Foundation for Economic Education's 1985-1986 Freedom Essay Contest.

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economic uncertainty offers evidence that politicians are unable, or unwilling, to follow a path of long-term monetary discipline in the face of short-term political gains.

Inflation can be a seductive tool for politicians facing a political or economic crisis. For the politician facing a large public debt, for example, state control of fiat paper makes inflation seem like a practical alternative to reducing spending. Inflating the money supply increases the nominal value of an individual's wages and assets, while reducing their purchasing power. If progressive tax rates are left unadjusted for inflation, the increased face value of the wage earner's income and assets will place him in a higher tax bracket, where the state receives a greater portion of his income and assets. Thus, while the individual is actually earning less, the state demands a higher share, and uses the additional revenue to pay its debts. Inflation, in this case, amounts to a subtle form of taxation.

Inflation has other political uses. The politician facing re-election, or otherwise seeking popular support, often uses inflation to bring temporary economic prosperity. Rapidly inflating the money supply may induce increased economic activity, which results in greater employment and more consumer goods. It should be emphasized, however, that these politically desirable effects of inflation are temporary, often lasting just long enough to overcome the current political crisis.

Effect on Savings

Inflation is a subtle form of thievery. Even while assets sit seemingly safe in a bank vault, their purchasing power is steadily eroded, no less so than if one's pocket had been picked. The difference in the two crimes, however, is that the state is committing the crime in the former case, and a single criminal commits the crime in the latter.

Inflation makes long-term saving nearly impossible. An individual may watch his life's savings be inflated away through no fault of his own. The solution soon becomes apparent: spend one's money on real estate, gold, and other hard assets because they possess lasting value in comparison with a depreciating currency. In fact, inflation in our time can be traced in the price of gold. Since the complete abandonment of the gold standard in 1971, the price of gold has risen from $35 an ounce to over $320 an ounce—an 800 per cent increase.[3] The purchase of gold and other assets is often made by going into debt, which is desirable in an inflationary period because payment will be made with currency worth less then it was when the debt was assumed. Inflation favors debtors at the expense of creditors.

A society preoccupied with obtaining as much debt as possible, and purchasing goods and services for immediate gratification, leaves little capital for business investment. Eventually, business becomes unable to find the necessary capital for further expansion or increased production. The production of consumer goods falls, and an afterburner is ignited on already soaring prices. As prices rise, people save even less and spend even more, which only accelerates the spiral. For example, during the post-World War I German inflation, workers eventually demanded that their wages be paid in cash so they could immediately purchase any available goods.[4]

The State may try to stop the inflationary spiral by introducing more currency into the economy or passing legislation designed to control prices. This also fails. The infusion of more currency only accelerates the inflation while price controls drive goods off the market.

The inflationary spiral during the French Revolution provides a striking example. On September 29, 1793, the French Assembly introduced the Law of the Maximum, which was designed to limit rising prices.[5] It failed miserably, and businesses closed their doors in droves. The French Assembly chose to ignore the laws of economics, and legislated more restrictions on the market. When these also failed, the Assembly imposed the death penalty for committing economic crimes, such as raising prices or asking what currency one was to receive. The economic chaos in France shows the final fate of the individual in a state-sponsored inflationary spiral.

Prevention of inflation and the economic trauma it brings can be accomplished only by removing the money supply from state control —abolishing the state monopoly on the coining of money. As Ludwig von Mises made clear,

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The Gold Room (New York) 1869.

money is a commodity, the value of which lies in its utility as a medium of exchange.[6] There is no reason to believe that the market would handle the production of money in a fundamentally different way than it handles the production of any other commodity—the coinage of money simply would be another business. As with any other business, the private coiners' goal will be to best satisfy the consumers' desires in order to achieve the maximum profit.

Private Coinage

The private coiner will provide the type of money in greatest demand. Since most individuals desire a stable currency with lasting value, this is what the coiner will provide; there will be no demand for inflationary fiat money. While a stable currency can be backed by almost any resource, history has shown gold to be the metal of choice. Coiners will provide coins stamped with a guarantee of their weight and fineness.

While the possibility of fraud in the coin industry will always exist, it will be held in check by the forces of competition.[7] We find examples of this when we study the history of private mints. Before private coinage was completely prohibited by the United States government in 1864, there were competing private mints in Georgia, North Carolina, and the gold-producing Western territories. These private mints provided honest and reliable service. The chronicler of one such mint operating in the early 1860s, Clark, Gruber and Company in Denver, Colorado, wrote that "Their business transactions were honest and above any reproach; they always dealt fairly with their customers, giving them full value for all their gold."[8]

It is, however, very inconvenient to carry gold coins when one wants to make a purchase. Undoubtedly, the market would also provide a solution to this problem. A warehouse system might develop where one could store his gold and then be issued a receipt.[9] Instead of carrying gold coins, one could simply carry the warehouse receipts and make purchases with them. These receipts would be the equivalent of paper money; they would represent a certain amount of gold held in reserve.

Indeed, some consumers might even find this method of purchasing items too cumbersome. The use of debit cards would allow one to transfer gold from one account to another without ever seeing the gold or warehouse receipts. Computer and communications technology offers almost unlimited possibilities for money services. A merchant could check the quality of a currency before accepting it by using a computer network much like those used today to clear checks and credit cards. Warehouse receipts could be electronically transferred across the globe by computer.

A multitude of consumer choices is the beauty of the free market. Where people are free to choose, they select a noninflationary currency. Private enterprise must be free to coin money if inflation and its accompanying ills are to be stopped. □

1. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (The University of Chicago Press, 1976).
2. Andrew Dickson White, *Fiat Money Inflation in France* (Foundation for Economic Education, 1959).
3. Susan Lee, "Gold: the Ultimate Burglar Alarm," *Forbes*, September 23, 1985.
4. Ringer, Fritz K., "The German Inflation of 1923" (Oxford University Press, 1969).
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To Deal With A Crisis: Governmental Program or Free Market?

by Robert Higgs

Emergencies are inevitable. History is replete with them, and the future will certainly bring new ones. During the past century, Americans have suffered the unanticipated shocks of great strikes, wars, depressions, and various lesser crises. It is instructive to consider now, while relative calm prevails, how past crises have been dealt with.

In the twentieth century the usual method by which Americans (and many others) have dealt with crises, namely, by creating emergency governmental programs, has resulted in permanent losses of economic freedoms and permanent impairments of economic institutions. If we can learn from our past mistakes, perhaps we can avoid such unfortunate developments when we must cope with a crisis again.

Above all, we need to understand that the choice is not between a governmental program and an unchecked calamity. Rather, the choice is between remedial actions taken by governmental officials, who can wield coercive powers, and remedial actions taken by private citizens, who must confine themselves to voluntarily accepted arrangements. In either case, something will be done. The critical questions have to do with the effectiveness and long-run consequences of the actions taken.

Suppose a crisis strikes: for example, foreign supplies of oil are drastically reduced. Industries using oil as a raw material must reduce their rates of production. Workers are laid off; their earnings decline or disappear. Oil-related industries and businesses dependent on the patronage of the laid-off workers feel the impact. They too must cut back. Economic decline spreads like ripples from a stone tossed into calm water. Something must be done. But what should it be?

Some are likely to propose, indeed to insist, that the government "do something." An emergency program could assign the available supplies to the users governmental officials consider most important, perhaps hospitals, police, fire departments, farmers. The authorities could undertake to restore the domestic equilibrium upset by the foreign shortfall. They might, for example, compel refiners using domestic oil to give up some of their supplies to refiners dependent on foreign sources. Of course, some method of compensation would have to be devised; someone would have to administer the rules to insure compliance; and someone would have to make adjustments to unforeseen changes in domestic patterns of demand and supply. In short, a governmental program to "do something" about the import cutback would probably lead to the creation of pervasive rules, a large administrative corps, and a suppression of free-market arrangements over a substantial part of the economy.

But what choice do we have? Given the dire consequences of the import shortfall, how

Robert Higgs is the William E. Simon Professor of Political Economy at Lafayette College, Easton, Pennsylvania. He is the author of three books and a number of articles in the professional journals of economics, history, and economic history.

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could we refuse to acknowledge the need for a governmental program? Is there really any workable alternative? Would not catastrophe result from the absence of an emergency governmental response? The short answers to these questions are: There is an alternative way to deal with the crisis; a governmental program may not be needed; a market-oriented response probably will work; and people left to work out their own salvation will not simply surrender to despair and disaster.

The essence of many crises is shortage: the quantity supplied of something—oil, opportunities for employment, soldiers—falls short of the quantity demanded at the prices prevailing in the market. But markets, if prices are free to adjust, naturally tend to eliminate shortages. In fact, the very existence of a shortage tells us that the prevailing price is too low. When the price rises, two things happen. First, demanders reduce the amounts they want to buy. Second, suppliers increase the amounts they want to sell. Given a sufficiently large price increase, a new equilibrium results in which the quantities demanded and supplied are the same. The shortage disappears. This adjustment process is exactly what is meant by "the workings of the laws of demand and supply."

Sometimes, however, the process does not appear to be working. Prices quickly rise, but little else seems to happen. Complaints arise that sellers are enriching themselves by "ripping off" the buyers. Political pressures may be exerted to keep the prices from rising further or to force them back to previous levels, on the grounds that price increases, even if they eliminate the shortage, only transfer income from buyers to sellers while doing nothing to restore the amounts of the good previously available in the market. But wait.

Laws of Demand and Supply

The laws of demand and supply have two parts. The first law of demand says that, other things being equal, people want to buy less when the price is higher. The second law of demand says that the longer the time for adjustment, the greater is the reduction in quantity demanded for a given increase in price. Similarly with supply. The first law of supply says that, other things being equal, people want to sell more when the price is higher. The second law of supply says that the longer the time for adjustment, the greater is the increase in quantity supplied for a given increase in price.

The message is clear: be patient. The market will restore an equilibrium, and conditions will steadily improve. With sufficient time, suppliers will bring forth more of the good in short supply or good substitutes for it. Demanders will find increasingly satisfactory ways to do without the good in reduced supply, often by substituting other goods for it.

In an emergency, however, many people do not want to wait for the second laws of demand and supply to come into play. Markets, we are often told, work too slowly. An emergency governmental program is said to have the important attribute of speeding the process of adjustment. Undeniably, coercive programs often work more quickly. But is this aspect of their operation, really an advantage?

Unfortunately, coercive programs "save time" only because they compel wastefully hasty adjustments. They do not save valuable resources. Rather, they redistribute the costs of adjustment in comparison with the responses determined by voluntary arrangements in free markets.

Suppose, for example, that in an oil crisis created by an import shortfall the government orders domestic oil producers to bring forth immediately larger deliveries of oil than they would supply voluntarily in reponse to the higher price of oil (assuming the government allows the price to rise freely in the market). Does not the government's order hasten the process of adjustment, and is not such a speed-up desirable?

To see what happens, consider why the oil producers do not supply the governmentally ordered amount voluntarily. When the price rises, they of course want to increase the amounts they supply. But an increase of amounts supplied can be brought about by various means, for example, by drawing down on inventories stored in tanks, by increasing the rate of pumping from established wells, by drilling more wells on known underground reservoirs of oil, by searching for new oil fields, by extracting oil from shale, and so forth. Each source can be

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tapped, but in the short run it is wasteful to draw on those that require more costly development, that is, more research, planning, reorganization of facilities, and reallocation of resources. It may make good economic sense to proceed with additional exploration and the development of new oil fields, for example, but to make these options yield oil quickly is possible only at extraordinarily high costs—for hiring and training inexperienced workers, bidding the use of materials and equipment away from other industries, paying employees higher wages to get them to work overtime. In the very short run it is economically justifiable to bring forth only the extra oil available in existing inventories in storage tanks. Later the other sources of additional supply can be tapped at a measured, and therefore cheaper pace.

Coerced haste only makes waste. *Faster adjustments are more costly, and someone must bear the additional costs.* The government can compel a faster adjustment, to be sure, but no valuable resources are saved because of the compulsion. Rather, someone is compelled to bear costs of adjustment that are not worthwhile. To satisfy the government's requirement, resources are shifted from socially more valuable uses to socially less valuable uses. The government gets a faster reallocation of resources not because its emergency programs "save" anything but only because its coercive power allows it to impose wasteful reallocations on the private owners of labor and capital. Society makes a faster adjustment at the cost of becoming, all values considered, worse off.

Emergency governmental programs, then, offer exceptional opportunities for those who would substitute their own values for those ordinarily guiding the allocation of resources in the market. When the cry of emergency goes up, the public's resistance to governmental takeovers comes down. Hence, aspiring redistributors of income, collectivist planners, and do-gooders at other people's expense all rush in to exploit the unusual opportunity for replacing market processes with governmental controls. But whatever one may think about the *immediate* desirability of an emergency governmental program, one must recognize that the program is almost certainly only a beginning; and what follows in its train may be far less desirable.

Unintended Consequences

At the very start one often gets something he doesn't want along with something he does. Because governmental programs are created by politicians who seldom give their assent gratuitously, proponents of a governmental program of type X may be able to marshal a majority in favor of it only by adding a governmental program of type Y. For example, when Congress passed the National Industrial Recovery Act—a paradigmatic emergency program—in 1933 to restore business profits by establishing cartels in every industry, provisions were included to promote collective bargaining and establish wage-and-hour rules in the labor markets. The labor provisions bought the acceptance of the act by congressmen responsive to the interests of labor unionists and thereby insured its passage. When the Supreme Court overthrew the NIRA in 1935, Congress immediately reestablished (and even strengthened) its labor provisions by passage of the Wagner Act. In this instance, as often happens, the original emergency program had attached to it, as the outcome of a political "horse trade," a governmental program that persisted long after the original program had disappeared.

Emergency programs frequently don't work as they are intended to. Governmental officials attempting to control the market discover that it is a moving target. As George Shultz and Kenneth Dam have written, "To every government action the private sector reacts or accommodates, and the government further reacts as the private economy 'talks back' to the government."[1] The government tries harder and harder to outwit the people subject to its controls. The people try harder and harder to anticipate what the controllers will do next. Although the process may result in a stand-off, it consumes ever more resources on both sides. For example, when the Reagan administration in 1984 announced new import restrictions on steel, "steel-making nations around the world began shipping more steel to the United States to establish higher benchmarks from which their steel export limits would be set," thereby bringing about the opposite of what the program was designed to achieve.[2] Naturally, domestic steel producers and labor organizations called

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for a stronger program to deal with this unforeseen development. American farmers subject to acreage controls have been playing a similar game since 1933.

Creation of an emergency program usually leads to the entrenchment of the connected special interests, both governmental and private. Everyone knows that "infant industries" granted tariff protection never mature to the point where they are willing to give up the "temporary" protection they sought in the beginning. Truckers who got protection from free-market competition during the Great Depression are still fighting to maintain their privileges against those who seek to deregulate the industry. Farmers are perhaps the most notorious. While the number of farmers has declined greatly and the typical farmer's income has risen dramatically since the 1930's the bureaucracy at the U.S. Department of Agriculture has become vastly larger. And the farm "crisis" seems ever with us, no matter how often the government undertakes to deal with it.

The farm programs also illustrate how emergency governmental programs, when maintained long after the events that prompted them, can lock the government into an almost inescapable position. The benefit of governmental subsidies comes to be expected by all parties. Hence it is "capitalized" into the value of farm land. Current farmers, who must bear the higher cost of land use, get no extra benefit by operating land subject to the subsidies—all the benefits were captured by those who owned the land at the time the new subsidies were first announced. But should the government discontinue the subsidies, current farmers would be hurt; the value of their wealth would fall. Naturally they fight to maintain the existing programs. The only way the government can rectify its initially bad choice of policies is by harming innocent parties, which seems manifestly unfair. Thus the programs go on and on even after almost everyone has recognized their ineffectiveness, inequity, and waste of resources.

Of course, no matter how the programs work out, the administrative corps tends to grow. If there are far fewer farms to serve, well, the people at the Agriculture Department can find other things to do, like operating the food stamp program or distributing pamphlets to urban gardeners or studying the international commodity markets. The U.S. Department of Energy grew out of a so-called energy crisis in the 1970s, yet today, when oil prices have plummeted and no one even claims the existence of an energy crises, the Energy Department thrives with thousands of employees and a budget of billions of dollars.[3]

Suppressing Flexibility

Ultimately the most unfortunate aspect of emergency governmental programs is that they suppress or crowd out flexible, creative, voluntary market responses to the crisis. When the energy programs of the 1970s controlled the prices of petroleum products and allocated the products among different classes of users and different areas of the country, the market could not work. Indeed, every aspect of the controls, especially the so-called entitlements program that was developed to make the controls "fair" to different classes of refiners, was socially perverse. Consumption and imports were encouraged; domestic production was discouraged. William E. Simon, the famous energy "czar" of the early crisis period, later declared that "There is nothing like becoming an economic planner oneself to learn what is desperately, stupidly wrong with such a system."[4] Economic history is full of successful market adjustments to shortages of all kinds: coal was substituted for wood; steam engines for animal and water power; an ingenious assortment of machinery for human labor; the list is virtually limitless. Yet such adjustments hinge on the presence of market incentives and the economic liberties that permit voluntary rearrangements to emerge.

The first and second laws of demand and supply cannot come into play unless shortages are allowed to express themselves in the form of price increases and surpluses are allowed to express themselves in the form of price decreases. Ultimately the most damaging aspect of emergency governmental programs is that they prevent the fundamental forces of the price system from doing the job that they, and only they, can do while preserving our economic freedoms.

Having witnessed decades of episodic crises,

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Calvin Hoover wrote: "At the time of economic crisis . . . critical extensions of governmental power are likely to occur. . . . [T]here is likely to be an insistent demand for emergency action of some sort and relatively little consideration of what the permanent effect will be."[5] The outcome is almost always the same. As Clinton Rossiter observed, "No constitutional government ever passed through a period in which emergency powers were used without undergoing some degree of permanent alteration, always in the direction of an aggrandizement of the power of the state."[6] In American history these observations are undoubtedly valid.[7]

Yet the pleas persist. Even in the early 1980s, hardly a time of genuine national emergency, there have been calls for emergency governmental programs to deal with unemployment, mortgage interest rates, re-regulation of the airlines, oil, and of course, the farmers.[8] Apparently the rhetoric of crisis still promises a positive political payoff, no matter how visibly grasping the special interests who mouth it.

The government will be less likely to use its powers in the service of these special interests if the general public keeps calm. When we hear the claim that a crisis is upon us, we are justified in remaining skeptical, for the serviceability of a genuine crisis to those who would set aside the free market has led them to attach the crisis label to almost all their pleas. Even when a genuine crisis occurs, we might well consider whether the best way to deal with it is simply to let the market work. By considering all costs and benefits and all consequences in the long run as well as the short run, we shall be less inclined to place our trust in emergency governmental programs. □

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IDEAS ON LIBERTY

Dangerous Experimentation

Only if we understand why and how certain kinds of economic controls tend to paralyze the driving forces of a free society, and which kinds of measures are particularly dangerous in this respect, can we hope that social experimentation will not lead us into situations none of us want.

F.A. HAYEK

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Lilacs

by Jack Schwartzman

We were fleeing the land of my birth, and my spirits sank low as I saw for the last time the old familiar sights. The stars were shining brightly that night; the fragrant aroma of Spring caused my youthful heart to beat fast; and I desperately longed to stay there forever.

Everywhere, the smell of lilacs was in the air. Everywhere, there were lilacs, lilacs, lilacs. It seemed as if the entire town was permeated with the scent of lilacs.

To this day, I cannot think of Russia without smelling lilacs; to this day, I cannot catch a whiff of lilacs without thinking of my native land.

My parents, my younger brother, and I were hurrying to the "contraband" carriage. We entered in silence, and huddled in the darkness. The driver whipped the air above the horses, and suddenly, we were off . . . off to a land uncertain . . . off to a destiny unknown. Our hearts were melancholy; our thoughts were bitter.

And everywhere, the smell of lilacs reached us, and the fragrance was intoxicating.

On flew the horses, on, on, onwards through the night. Backwards slid the houses, the trees, the river; backwards rushed the dreams, the memories, the hopes, the yearnings of youth. On sped the future; backwards fled the past.

How I longed to seize the escaping vistas; how I desired to hold on to the vanishing views of my childhood! The stars were resplendently bright and glimmering; the chirping noises of the night were symphonic and melodious. I have never before—nor ever since—felt such a deep "belonging," such a feeling of being part of God's universe, such a "responding to" the music of the night. As we drove on, I saw grandeur disappearing before my eyes. I felt sadness rushing in to fill the vacuum of my heart.

And everywhere, the everlasting scent of lilacs greeted us, and the aroma was overwhelming.

Dr. Jack Schwartzman fled from his native Russia in the 1920s, and lived in different parts of Europe before coming to the United States.

He is an attorney, professor of English, and editor-in-chief of Fragments.

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And I thought to myself: How is it possible, in Russia, a land celebrated for its dreamers of liberty—Pushkin, Lermontov, Gogol, Turgenev, Dostoyevsky, Tolstoy—that such a terrible enslavement should exist? How is it possible that in the birthplace of Moussorgsky and Tchaikovsky, where once strummed the plaintive balalaika, now whined unceasingly the shrill bullets; where once gaily tiptoed the lovely ballerina, now grimly trod the heavy boot of the Red conqueror?

And I thought to myself: Every nation on earth has produced its poets and dreamers and musicians; every nation on earth has spat forth its demagogues and debauchers and destroyers. On the same spot, the sun may shine brightly; on the same spot, the skies may pour forth a deluge of hail and devastation.

And I thought to myself: Whether under the tyranny of the Tsar or the dictatorship of the Commissar, the voice of liberty will, nevertheless, always be heard. In camps, in prisons, in hovels, in trenches, in palaces, in hospitals, in offices, in mansions, in fields, in towns, in "contraband" carriages, and in all the Siberias of the world—the song of freedom can never be silenced; the spark of hope can never be extinguished.

And I thought to myself: Men are men the world over, be they black or white or yellow or brown or red; be they Christians or Jews or Moslems or Hindus or Confucianists; be they royalists or anarchists or revolutionists or humanists or Communists; be they Frenchmen or Americans or Indians or Tartars or Russians; be they poets or soldiers or prisoners or musicians or politicians.

And I thought to myself: How wonderful it would be if the world of men were to accept diversity, and to welcome it! The earth is ablaze with the colors of flowers and fruits and foods and customs and languages and men. All things are different; therefore, all things are alike in their various magnificence.

And I thought to myself: The salvation of man lies in his ability to harness his dreams; in his capacity to capture the stars; in his endeavor to hear the eternal music of the spheres.

And I thought to myself: Someday, the land of Russia will be free: free, not because of the hocus-pocus of some political manifestation or some economic transmutation or some ritualistic-religious hodge-podge—but free because of the innermost ability of man to see the visage of God, and to understand the reason for man's own existence on earth. When the land of Russia—and the entire earth for that matter—shall be genuinely free, it shall be free because man is able to understand that his destiny lies in himself.

And I leaned out of the carriage, and took a deep breath. The breeze that greeted me was full of the promise of Spring; the stars shone brightly—more brightly than I had ever seen them shine before; the sound of horses' hoofs was rhythmic and lulling; the night was cloaked with the sparkling splendor of God.

And as the horses, the carriage, and the people in it drove on to their destiny, I stole a glance at my mother. Sitting next to me, she too was staring into the night. Even in the darkness, I could see her face—and I saw that her eyes were bright with tears.

On flew the carriage, on, on, onwards through the night. The scent of lilacs was intoxicating. □

IDEAS ON LIBERTY

The Achilles Heel of the socialist theory is that the more intensively it is applied the more the human being loses his options. Without the free interplay of the forces of the free marketplace the greater must be the centralization of planning and authority, and the greater the role of coercion.

JENKIN LLOYD JONES

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Pollution Control and Biblical Justice

by Gary North

If a man shall cause a field or vineyard to be eaten, and shall put in his beast, and shall feed in another man's field; of the best of his own field, and of the best of his own vineyard, shall he make restitution. If fire break out, and catch in thorns, so that the stacks of corn, or the standing corn, or the field, be consumed therewith; he that kindled the fire shall surely make restitution. (Ex. 22:5-6)

These verses make plain at least three facts. First, the Bible affirms the moral and legal legitimacy of the private ownership of the means of production. Fields and cattle and crops are owned by private individuals. Second, private propery rights are to be defended by the civil government. The State can and must require those people whose activities injure their neighbors or their neighbor's property to make restitution payments to those injured. Third, owners are therefore responsible for their own actions, and also for the actions of their subordinates, including wandering beasts.

This combination of privately owned property, personal liability, and court enforcement of private property rights is the foundation of capitalism. It is surely the foundation of long-term economic growth. This property ownership arrangement is also important for the reduction and allocation of pollution. Initially, these verses may seem self-explanatory. Nevertheless, when we consider them in the light of the many intellectual and institutional problems related to the whole question of pollution, their application in society becomes an enormously complex task. Without these legal guidelines, however, we could not deal effectively with the pollution problem.

Contrary to many of the twentieth-century critiques of both capitalism and pollution, socialist commonwealths have not produced reasonable, cost-effective, workable solutions to the pollution problem. More than this: such solutions cannot be implemented in socialist societies, for it is the private ownership of the means of production which is the basis for a successful program of pollution control. In fact, it is common ownership—bureaucratic ownership—which creates most of the economic incentives to pollute and exploit the environment.

The "Tragedy of the Commons"

A fundamental economic problem in any system of common ownership is the problem of assessing true costs and benefits. Historically, one of the most familiar of these systems of common ownership has been commonly held land. From the Middle Ages through at least the late seventeenth century, these property units were known as "the commons," and the term still persists in some regions of the United States, referring usually to city parks.

Where the community allows citizens to place their grazing animals on the commons, a

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Dr. North is President of the Institute for Christian Economics. For a free six-month subscription to Biblical Economics Today, *write Subscription Office, ICE, P.O. Box 8000, Tyler, Texas 75711.*

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whole series of difficulties emerges. The economic benefits accrue directly to the man who places his animal on the "free" land, but the costs are borne by everyone in the community who would like to use the property for any other purpose. In Puritan New England in the seventeenth century, roaming animals uprooted plants and over-grazed pastures. Townspeople cut down trees in the night for firewood or fencing.[1] Similar problems have plagued the commons in every culture. This is the direct result of a system of ownership in which *economic gains go to individual users* and *costs are borne by non-users.*

Such a system inevitably produces economic waste and personal disputes over the proper use of the common property. Those who benefit directly from their personal use of the commons have few direct economic incentives to conserve the commons' scarce economic resources, for these resources are obtained at nearly zero cost to the private users. The cost of running one additional animal on the commons is minutely felt by any single taxpayer-owner; he receives the benefits immediately. There is every incentive to over-graze the commons, for economic restraints are minimal, while benefits are direct. This creates a system of "positive economic feedback" rather than "negative feedback." It leads to a situation described by some scholars as "the tragedy of the commons."[2] It involves such phenomena as over-grazing, soil exhaustion, and pollution. J.H. Dales writes: "the economic effect of making common property available for use on a no-rule basis, so that it may be freely used by anyone for any purpose at any time, is crystal clear. Common property will be over-used relative to both private property and to public property that *is* subject to charges for its use or to rules about its use; and if the unrestricted common property is depletable, over-use will in time lead to its depletion and therefore to the destruction of the property."[3]

Private Ownership: The private ownership of property drastically reduces these problems. Private costs are more readily, accurately, and inexpensively assessed than public or social costs, precisely because *private owners directly face the effects of their own economic decisions.* The cost of adding another animal to the land is borne directly by the man who expects to profit from the decision, if the owner of the animal is also the owner of the land.[4] When the private costs of adding one more animal to the land exceed expected future benefits, owners will stop adding new animals. *Private costs and private benefits tend to balance over the long run.* The better the knowledge that owners have about costs and benefits, the more rapidly the two will be equated. Resources are thereby conserved.

Nevertheless, men are continually tempted to pass on costs to their neighbors, while retaining benefits personally. One man may sneak his animals into another man's field. The other man is harmed economically—robbed. The injured party has an immediate economic incentive to put a stop to his neighbor's practice of transferring production costs to him. His incentive as an injured private owner to stop the practice is far greater than it would be in a system of common ownership, where the injury is spread over the entire population of so-called owners. (Do we really own common property? If a man cannot *disown* a piece of property, it is difficult to see how he can be said to own it.[5] At best, the costs of "disownership" are high; they involve political mobilization, not simply a private offer to sell.) The desire to reduce costs is strongly felt on both sides of the fence which separates privately owned properties. In fact, *the very existence of the fence testifies to a man's desire to keep outsiders from transferring their costs to him.* Of course, a fence also testifies to people's desire to avoid having their "benefits" wander off, especially if they might cause damage to another person's property, assuming restitution is the law of the land.

Fences Reduce Conflicts: The Bible affirms that those who violate fences or property lines must make full restitution to the economically injured neighbor. The assessment of harm is easier to make than under common ownership. "*His* cows ate *this* row of corn in *my* cornfield." The owner of the damage-producing animals is responsible. Responsibility and ownership are directly linked under a system of private property rights. Under a system of private ownership, *property lines* are in effect

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cost-cutting devices, for they serve as *cost-assessing devices.* Without clearly defined property rights for men, and therefore clearly defined responsibilities, the rights of "property"—God's living creatures and a created environment under man's dominion (Gen. 9:1-17)[6]—will be sacrificed.

Carefully defined property rights also help to reduce social conflicts. Dales writes: "Unrestricted common property rights are bound to lead to all sorts of social, political, and economic friction, especially as population pressure increases, because, in the nature of the case, individuals have no legal rights with respect to the property when its government owner follows a policy of 'anything goes.' Notice, too, that such a policy, though apparently neutral as between conflicting interests, in fact always favours one party against the other. Technologically, swimmers cannot harm the polluters, but the polluters can harm the swimmers; when property rights are undefined, those who wish to use the property in ways that deteriorate it will inevitably triumph every time over those who wish to use it in ways that do not deteriorate it."[7]

In questions of pollution and environmental quality, there can be no neutrality. There are winners and losers, although net winners may suffer some losses (air polluters breathe, too), and net losers may gain some benefits (asthmatics may earn high incomes by working for firms that sell raw materials to local polluting factories). It is the task of biblical exegesis to establish the ethical and legal foundations that enable judges: 1) to identify the winners and the losers; 2) to enable them to adjudicate cases properly; and 3) to determine what is fair compensation to the losers from any unauthorized winners.

Fire and Pollution

Each owner is also responsible for what any animate or inanimate objects under his control do to injure others. A fire kindled on the land of one man must be kept restrained to his property. If the fire spreads to his neighbor's field, he is fully accountable for all the damages. Men therefore have an incentive to take greater care when using potentially dangerous tools or techniques.

The problem of pollution should be subsumed under the general principle of responsibility for fire. A fire is a physical cause of physical damage. From the case-law example in Exodus 22:5, it is clear that the fire which one man starts is his responsibility. *He cannot legally transfer risks to his neighbor without his neighbor's consent.*

The Bible is not talking here about some shared project in which both men expect to profit, such as burning fields to get rid of weeds or unwanted grass. In such a mutually shared project, the case-law example of the man who rents his work animal to a neighbor, but who stays with the animal the whole time, is applicable. The neighbor is not required to pay anything beyond the hiring fee to the owner (Ex. 22:14-15). If the animal is hurt or killed, the neighbor owes nothing.

There is no doubt that the fire-starter is responsible for all subsequent fires that he starts. Sparks from a fire can spread anywhere. A fire beginning on one man's farm can spread over thousands or even tens of thousands of acres. Fire is therefore essentially unpredictable. Its effects on specific people living nearby cannot be known with precision. It is this factor of *uncertainty* and *unpredictability* of the specific, individual consequences which governs the rule of restitution for damage-producing fires, as well as laws relating to the regulation of fire hazards.

What about pollution? Specifically, what about the uncertainty aspect of pollution? A Christian economist should argue that a man must not pollute his neighbor's property without making restitution to him for any *new* damaging effects. If some form of pollution is discovered to be more harmful medically or ecologically than understood before, the polluter should be required to reimburse those who are *subsequently* affected adversely by the pollutant, after the information concerning the danger is made public by the State, or becomes known within the polluting industry.

But what if the complaining neighbor had purchased his land knowing all about present *nuisance effects* (as distinguished from subsequently discovered effects) of the pollution process which was going on next door? Does he now have the legal right to sue his neighbor,

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who is doing exactly what he was doing before the property was sold? After all, the buyer bought the property at a *discount*, because of the depressing effect on land prices caused by the pollution. There is no doubt that there is an inverse relationship between pollution and land rents (and therefore the market price of land): the greater the pollution, the lower the rents.[8] The market reveals this inverse relationship.

Land Discounts: Restitution in Advance

Economic analysis informs us about the costs and benefits of biblical morality, and biblical law tells us who should bear these costs and receive these benefits. As potential buyers, we look at the discount in the purchase price of the land next door to a polluting production process, and we can conclude that this discount serves as *an advance payment of restitution to the buyer* for *specified, known kinds of future "spillovers."* The nuisance effects of these spillovers from the property next door are implicitly agreed to by the buyer when he receives his discount from the seller. Any subsequent attempt by the buyer to demand financial compensation from the polluter under such circumstances is simply a demand for a statist, compulsory redistribution of private property. So is any legislation that would force the polluter to reduce pollution, unless new information regarding the dangers of the pollution is discovered. It would be a demand for restitution in addition to the discount already received by the buyer when he bought the property.

Murray Rothbard has used the concept of the "homesteading principle" to defend the legal right of a polluter to continue to pollute. By developing a previously unused piece of land, he has created an *easement right* to whatever polluting processes he adopts, so long as these processes do no physical harm to those people who owned nearby property when he bought or discovered his land. He "owns the right" to emit noise or other forms of pollution, assuming his original neighbors were unaffected. In the case of pollution, he calls this a *pollution easement.*[9]

The Christian economist could also argue that a protesting "pro-environmentalist" who de-

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mands that the civil government put a stop to his neighbor's pollution is seeking to achieve a less polluted life-style at his neighbor's expense, despite the fact that he bought the property at a discount because of the pollution. Would he be willing to pass on to the polluter any increase in the value of his property that results from the reduction of pollution, to help defray the costs of reducing the pollution? If not, why not? Economically speaking, he is demanding that a third party, the polluter, return the discount to the buyer which was forfeited by the seller. The polluter loses, and so does the seller who was forced to accept less money for his property.

Public Utilities: Perhaps we can better understand the economics involved by examining the installation of water or sewer lines in a region of a town which had previously been dependent on wells and septic tanks. The municipal government could make an offer to local residents who are about to see their property values rise as a result of the new municipal service. The city says: "If you want to hook up to the new lines, you must pay a high hook-up fee to the municipal water company—a fee closer to the full value of the resulting increase in your property's value." In short, the resident who receives the increase in the value of his capital must pay for this appreciated value. This is the way that new sewer projects should be financed, not by assessing all taxpayers in the community. Those who benefit directly and immediately should bear the full costs of the project, or at the minimum, should be required to pay the equivalent of the immediate increase in the value of the property, perhaps in the form of higher assessments per month for a fixed period of time. If sewers were financed this way, there would probably be less political resistance by overburdened taxpayers to urban development.

What is the economic principle involved? Simple: *one person should not be compelled by the State to pay for the increase in value of another person's property.* The taxpayer whose property is unaffected by the increased benefits associated with a new water or sewer line should not suffer economic losses (higher property taxes or water bills) because he has to pay for another resident's economic windfall (waterfall?). The beneficiary should pay for the benefit.

So it is with pollution. The beneficiary of the improved environment—a benefit extracted through compulsion by the civil-government—should pay for this improvement. He should compensate the neighbor for the costs borne by the neighbor in reducing the prior level of pollution.

Private Contracts

This raises a very interesting point. Why should the civil government get involved at all? Why shouldn't the benefit-seeker approach the polluter directly and offer him direct compensation? The beneficiary knows approximately what it would be worth to him to escape from the pollutant. The polluter knows approximately what the value of being able to pollute means to him. If the benefit-seeker's price is high enough, he can sign a contract guaranteeing to reduce or eliminate the polluting activity. In effect, the benefit-seeker pays the discount he received from the seller to the polluter.

The polluter may reject the offer. That is his legal privilege. But it costs him to reject it. He forfeits the economic benefit offered by the benefit-seeker. His cost of continuing to pollute has just risen appreciably. He can no longer pollute at zero cost. He has an economic incentive to stop polluting the environment.

Bear in mind that we are speaking here of pollution which was known in advance, and for which the buyer of the adjacent property received a discount. We are not speaking of new pollution, or an older pollution process which, through improved scientific knowledge, is now understood to be more of a physical hazard than had been understood before.

Pollution and the Costs of Knowledge

If pollution is really equivalent to fire's damaging effects, and we see that the Bible makes all fire-starters legally liable for damages, then is this economic analysis of pollution and damages—the concept of the purchase price discount as a form of restitution payment—

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ethically biblical? Shouldn't all damage-inflicting pollution be banned, whether or not the buyer next door knew in advance about it? After all, he may also have known that the man next door started fires regularly, but he would also know in a biblical commonwealth that the fire-starter is personally liable for all future damages that their fires might cause. Why should the polluter be allowed to go on with his polluting without paying damages, yet the fire-starter be required to pay for all damages, irrespective of the neighbor's discount? Are the two cases ethically the same or different?

The Economics of Uncertainty: They are the same in principle, but different in application. To understand the differences in application, we must discuss the issue of *uncertainty.* The specific effects of noise or smoke are known. They are nuisance effects. They are effects that buyers can estimate, at least to the extent that discounts are offered by sellers to buyers for agreeing to live next door to smoke and noise pollution. In contrast to the known effects of a familiar form of pollution, the specific effects of any given fire are uncertain. They can be negligible or catastrophic. A fire may affect people far distant from the point of origin. Thus, the fire-starter is warned: be extremely careful. Biblical law warns all fire-starters: "You are legally responsible for all damages caused by your actions. We all know how dangerous fires are; do not attempt to transfer the side-effects to a neighbor." Under biblical law, society is partially protected from essentially unpredictable catastrophes, for those who light the fires are restrained by the threat of full financial responsibility for damages that their fires inflict.

The difference between "traditional" polluters—smoke, noise, smells—and fire-starters is primarily *a difference in men's knowledge of each action's future effects.* The specific local effects of a familiar form of pollution are approximately known in advance to those who choose to live near pollution. The specific effects of specific fires caused by local fire-starters are not well known to nearby residents. Whether specific sparks from a specific fire will be harmless, or will ignite this or that field, or this or that neighborhood, cannot be known in advance. We must focus our exegetical attention on these specific effects.

Insurable Risk: The existence of fire insurance does not invalidate this analysis of "the economics of specific effects." While it is sometimes possible for a person to buy fire insurance, the reason why fire insurance is available at all is because companies insure many different regions, thereby taking advantage of "the law of large numbers." They can insure specific properties economically only because fires have known effects in the aggregate. If there were no known statistical pattern to fires in general, insurers would not insure specific properties against fire damage.

This is not to say that the following arrangement should be prohibited by law. A person who wishes to begin a business which is known to be dangerous approaches others who could be affected. "I'll make you a deal," he says. "I will pay for all increases in your insurance coverage if you let me begin this business in the neighborhood." If they agree, and if the insurance companies agree to write the policies, then he has met his obligations. He has made himself responsible for damages. Instead of paying for damages after the fact, he has paid in advance, through the existence of insurance.

What if some resident says "no"? The prospective producer of danger can then offer to buy him out. If the offer is accepted, the prospective danger-producer can then sell the property to someone who is willing to live with the risk, if the discount on the land is sufficiently large. But if the original owner refuses to sell, and also refuses to accept the offer regarding insurance premiums, then the first man should not be allowed to force out the original owner. If he begins the dangerous production process, the owner can legitimately sue for damages. But he faces a risk: the court may require a money payment to the victim. The court need not necessarily prohibit the activity altogether.

This decision by the judges requires that judges do the best they can in estimating the costs and benefits to the community, *including the perceived value to citizens everywhere of the preservation by the State of private property rights.* They cannot estimate perfectly, for they cannot know the psychic costs and benefits in-

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volved in the minds of the conflicting parties. But they can make general, "unscientific" estimations, given the image of God in all men, and given the created environment in which all men live.

This is an important application of biblical revelation to economics: if there is no universal humanity—no universal human nature—and no Creator who serves as the basis for man's image, and no creation governed by the Creator in terms of His value and His laws, then it is impossible for the judges legitimately to have confidence in their estimation of social costs, social benefits, private costs, and private benefits. Without our knowledge of objective economic value provided by God's plan and His image in man, objective economic value becomes epistemologically impossible.[10] Judges would then be blind in a sea of subjective economic value, in which it is philosophically impossible for men to make interpersonal comparisons of subjective utility.

Conclusion

Attempts by humanistic economists to come up with an approach to the problem of pollution have not been intellectually successful. Because humanists deny that God is Creator and that men are made in His image, they are incapable of solving the problem of objective knowledge vs. subjective knowledge. They have not been able to solve the problem raised by Lionel Robbins, the impossibility of making interpersonal comparisons of subjective utility. Thus, we must turn to the Bible for a solution to the nagging problem of the economic effects of pollution. We must use Bible principles of justice to begin to devise political and economic sanctions against polluters—sanctions that do not inherently destroy the case for freedom. The basic solution to pollution is *restitution,* either after the act or in advance (discounts). □

1. Gary North, "The Puritan Experiment in Common Ownership," *The Freeman* (April 1974).
2. Garrett Hardin, "The Tragedy of the Commons," *Science* (13 Dec. 1968); reprinted in Garrett de Bell (ed.), *The Environmental Handbook* (New York: Ballentine, 1970). Hardin calls for greater government intervention rather than an expansion of private property rights. A solid refutation of Hardin is C. R. Batten's "The Tragedy of the Commons," *The Freeman* (Oct. 1970).
3. J. H. Dales, *Pollution, Property, and Prices: An Essay in Policy-Making and Economics* (Toronto: University of Toronto Press, 1968), p. 63.
4. In the case of land which is rented or leased, the renter may attempt to pass some of these costs to the owner. He may allow his animals to overgraze, or he may allow the soil to be depleted or damaged in other ways. Profit-seeking owners need to consider these costs when they draw up the terms of the lease. The original lease contract may impose penalties on renters who damage the property, or it may include incentives so that they will care for it.
5. "The corollary of the right of ownership is the right of disownership. So if I cannot sell a thing, it is evident that I do not really own it." F. A. Harper, *Liberty: A Path to Its Recovery* (Irvington-on-Hudson, New York: Foundation for Economic Education, 1949), p. 106.
6. See "The Ecological Covenant," in Gary North, *The Dominion Covenant: Genesis* (Tyler, Texas: Institute for Christian Economics, 1982), ch. 14.
7. Dales, *Pollution,* p. 67.
8. T. D. Crocker, "Externalities, Property Rights, and Transaction Costs: An Empirical Study," *The Journal of Law and Economics,* XIV (Oct. 1971), p. 452.
9. Murray N. Rothbard, "Law, Property Rights, and Air Pollution," *Cato Journal,* II (Spring 1982), p. 77.
10. Gary North, *Genesis,* ch. 4: "Economic Value: Objective and Subjective."

In Future Issues . . .

October

- "The Seven Deadly Fallacies of Bad Economics" by John K. Williams
- "Protectionism: The Myths" by J.R. Kearl
- "Protectionism and Agricultural Price Supports" by E.C. Pasour, Jr.

November

- "The Forgotten Dream" by John K. Williams
- "Underground Government" by Hans F. Sennholz
- "Private Schools for the Poor" by Howard Baetjer Jr.

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On Building Codes

by Nils McGeorge

Has government regulation improved the quality of life? In the case of housing, I think not.

Uniform building codes, planning and zoning ordinances, along with subdivision laws, provide a blueprint for land use. It seems to make sense on paper—nice, broad, well-lit streets with middle and upper income houses in logical relationship to services such as schools, shopping malls, and recreation areas. But something happens along the way.

Imagine you are driving along the beautiful California valley of my father's youth. The rich diversity he once knew now has been replaced by row upon row of pink, blue, and brown tract houses crowded into the valley.

Why are there no houses in the surrounding hills? Because the local government *prevents* that—citing steep terrain, difficult drainage, and the expense of providing services. Why are the houses in the valley so close together? With the upgraded requirements for sewers, streets, wiring, and so on, the houses had to be close together to make building economically possible.

What do the residents do as a relief from the uniformity and blandness of their environment? Aside from watching TV, they can drive over the mountains to Solvang, an imitation Danish town with narrow, winding streets, sidewalk cafes (prohibited by the health department of my father's home town) and the diverse charms that tourists love.

And what about people who can't afford the well-built houses in the valley? Do the poor live in smaller, less well-built homes? No, they don't. There is no way to build houses they can afford and still meet the requirements of the building department. The very poor wind up living on the streets, in the culverts, and under the overpasses.

Solvang, California

Are such regulations improving the quality of life for all levels of society? Unfortunately, they are not.

When we speak of freedom of speech or religion it is generally understood that the American way will not tolerate dictation from the state. In the instance of property rights, however, we let the state—and by the state I mean city, county, state, and federal governments—assume socialistic powers. We have done this in the hope that our lives would be better. We have given up our freedom hoping to reap the benefits of regulation. We have lost on both counts.

Let's combine Adam Smith's idea—open competition among free individuals—with Alexis de Tocqueville's idea—the moral development of these free individuals. Let open competition among free individuals do the regulating, and we can regain our freedom and our prosperity. □

Mr. McGeorge is an eleventh grade student at Hellgate High School, Missoula, Montana. This article is adapted from his winning essay in a contest sponsored by the Montana Council of Organizations, on the relationship between land-use regulations and private property rights.

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Deregulate the Utilities

by Howard Baetjer Jr.

Government regulates utilities by granting them monopoly privileges, and then controlling their prices. I contend that such government intervention is wrong. It is unnecessary, inefficient, and in the final analysis, immoral. Utilities should be completely deregulated.

In particular, government should remove all its monopoly privileges and allow anyone to try to compete with existing utilities, in any market or location. Government should repeal the privileges it has conferred on various gas and electric companies, cable television companies, water companies, and so on. Let established firms try to expand into one another's territory; let new companies try to develop in any area.

At the same time, government should deregulate the pricing of utility goods and services. Presently, the rates or prices charged by most utilities are set by the political process, via public utility commissions. This practice should be abandoned. Utilities and their customers should be allowed to determine prices by voluntary agreement. Government should stop guaranteeing rates of return to the utilities, with no regard as to whether the companies are efficient or serve their customers well.

The first reason I offer for total deregulation is that utility regulation is unnecessary. It is based on the theory that utilities are "natural monopolies"—the sorts of industries in which monopolies naturally develop.

The theory holds that a natural monopoly will develop when, in a given market, there are great economies of scale. That is, fixed costs for machinery and equipment are very high—such as the cost of an electrical generating plant. At the same time, the marginal cost—the additional cost of producing one more unit—is very low. For more electricity, just turn up the generators a little. This means, according to the natural monopoly theory, that it is uneconomical for more than one firm to operate in a given market. Competition sooner or later will drive out all but one firm, leaving the consumer at its mercy.

The public policy response to this idea has been to establish monopolies by law, since they are inevitable anyway, and then regulate them "in the public interest." But natural monopoly theory is wrong. Hence the regulation based on it is just extra baggage burdening the economy.

Natural monopoly theory breaks down because it treats the world as fixed, unchanging, and mechanical. It assumes "a given market," isolated from other markets. But there are no isolated markets in the real world. All markets overlap and interact. At present, markets for electrical power in North America are expanding, despite regulation, with power being "wheeled" or transmitted over long distances. San Diego Gas and Electric Co., for example, has long term contracts to wheel in power from as far away as Oregon.[1]

Howard Baetjer is a member of the staff at FEE. This article is adapted from a speech he gave earlier this year at Marymount College, Tarrytown, New York, as part of a debate on utility regulation.

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Another problem with natural monopoly theory is that it doesn't allow for changes in technology. In assuming that there are fixed costs for machinery and equipment, which any competitor will have to purchase, it fails to account for the development of new technology which will allow newcomers to compete successfully. High-voltage, direct current technology is revolutionizing electrical transmission, especially between separate operating systems. Some companies now generate competitively priced electricity using biomass, wood waste, and even garbage as fuel.[2] A rapidly increasing amount of electric power is produced not by utilities at all, but by private industries which generate power for their own use, and sell a surplus to other users. This process is known as cogeneration. As the technology develops, large-scale electrical utilities might possibly become obsolete, if regulation does not stifle the competitive process.

Economies of Scale?

Natural monopoly theory is also flawed in overstating the importance of economies of scale. There is no doubt that large industries, with scale economies and lower unit costs, can operate more efficiently than small ones, if other factors are equal. But there are many other factors, and they are rarely equal. An important factor is the efficiency that is spurred by the very existence of competition. University of Illinois professor Walter Primeaux has done extensive studies of the electrical power industry. He reasons that where competition exists, it "could lead to lower costs than a monopoly in any business by improving incentives to operate efficiently. Moreover, to the extent that inefficiency exists in a monopoly electric utility firm, the inefficiency may be so large as to overcome or offset any economies of scale gained from monopoly."[3]

According to a recent survey, there are 32 communities in the United States that have competing electrical utility companies.[4] Professor Primeaux compared 23 of these communities with others of similar size in the same states served by monopoly electrical utilities. The results are striking. Notwithstanding economy of scale advantages of the monopolies, communities with competing electric companies had average prices for residential sales that were 33 per cent lower.[5] Residents of towns served by two companies, such as Lubbock, Texas, consistently favor the better service resulting from competition. Though state regulatory commissions are usually hostile to competition, "residents who have a choice always vote for competition."[6]

The second reason for deregulating utilities is that deregulation fosters competition, which keeps prices down and quality up. The central problem is the restraint on entry—the granting of monopoly status, by law, to some politically favored businesses, keeping everybody else out. Regulated industries typically gain control of the rate-setting process and thus can award themselves "profits" regardless of their performance. Their customers, legally prevented from turning to other providers, must endure or do without. Thus the process of government regulation gets abused. The only dependable regulator for the public interest is the competitive market process.

Consider the experience of the airline industry. Under regulation, a few favored companies were protected from competition—granted legal monopolies or oligopolies on particular routes. Existing airlines influenced the Civil Aeronautics Board to maintain prices at a high level. Then came deregulation. Along came People Express, New York Air, and a rash of new services, especially in small, commuter airlines. Prices have tumbled, and the consumer has benefited.

Partial deregulation of the telecommunications utilities is having similar beneficial effects. Once AT&T's legal monopoly was ended after many decades, MCI, Sprint, Allnet and a host of other lower-cost competitors appeared. Cellular telephones, satellite communications, and fiber optics all are providing further choices with astonishing rapidity. This blessing of competition should be extended to all industries.

While these economic arguments are important, the most fundamental reason for deregulating utilities is the principle of free choice. In a good society, which prides itself on freedom, the government should protect free choice, not obstruct it. People who think they can provide electric power, telecommunications, television,

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gas, or any other good or service should be free to take a crack at it. What right does government have to obstruct their creative endeavors, thereby protecting the monopoly privileges of other people?

Consumers likewise should be free to reject the services of companies that are inefficient, expensive, or unresponsive to their needs, and patronize other companies that promise to serve them better. What right does government have to deny consumers a choice of utilities? Is it not absurd that such denial of choice is called regulation "in the public interest"?

Government regulation of utilities lacks a theoretical base, brings about higher costs and lower quality, and violates the principles of a free society. Government should deregulate the utilities, and let the competitive market process do the regulating, the cost-cutting, the improving of quality, and the innovating that characterize economic free choice wherever it exists. □

1. "Electrical Utilities Find Market Forces Taking More Important Role." *Wall Street Journal*, February 26, 1986.
2. Ibid.
3. Walter Primeaux, "Total Deregulation of Electrical Utilities: A Viable Policy Choice," *Unnatural Monopolies*, Robert W. Poole, ed. (Lexington Books, Lexington, Massachusetts, 1985) p. 128.
4. "Power Stations: Some Like Them Competitive," *Reason*, November, 1985, p. 18.
5. Primeaux, *op. cit.*, p. 136.
6. Jan Bellamy, "Two Utilities Are Better Than One," *Reason*, October, 1981, p. 28.

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Lessons from Socialist Tanzania

by Sven Rydenfelt

Tanzania in eastern Africa became an independent nation in 1961, when it was known as Tanganyika. Its political leader Julius Nyerere, a confirmed socialist, was elected president in 1962. In his Inaugural Address to Parliament he declared:

"When we were in the midst of our struggle for independence, I promised that after we had won our freedom, we would try to achieve in ten years most of the things which our colonial rulers had failed to achieve during the whole of the time they had governed our country. Today I want to renew that promise . . . All of us have agreed that we must establish a true socialist society in Tanganyika."[1]

Of course, the President believed in his optimistic vision, and fully intended to realize it. Good intentions, however, are not enough. If you want to implement your vision, you have to start with a realistic blueprint. And, as experience later proved, Nyerere's socialist blueprint was a dream far removed from reality.

During its first years, Nyerere's government was occupied with transforming the country from a colonial area under British hegemony into a fully independent nation. Not until 1967 did the government feel strong enough to issue the Arusha Declaration, which implemented a comprehensive socialization program. All important industrial enterprises, including banks, insurance companies, export-trade companies, and even most of the larger plantations, were placed under government control.

In Tanzania, however, the great majority of the population earned their livelihood as smallholders in scattered settlements. Of course, such a "primitive" agriculture had to be socialized, too. And so the Tanzanian government—following the Soviet model—decided to concentrate the multitude of small farms into large collectives called *ujamaa* villages.

President Nyerere was well aware of the importance of these small farmers. In a 1964 speech, he stated:

"Our future, in every respect, depends on our farmers more than on any other single group of citizens. They are the people responsible for using our one great national asset—our land. They constitute more than 90 per cent of our people."

Some months after the Arusha Declaration, President Nyerere published *Socialism and Rural Development*, in which he spelled out his agricultural program. Among his promises to the nation's small farmers, the following are significant:

- Respect for the individual.
- Voluntary migration into the collectives.
- The transition into collective production was to be effected gradually and quietly.
- The ultimate stage—a collective large-scale

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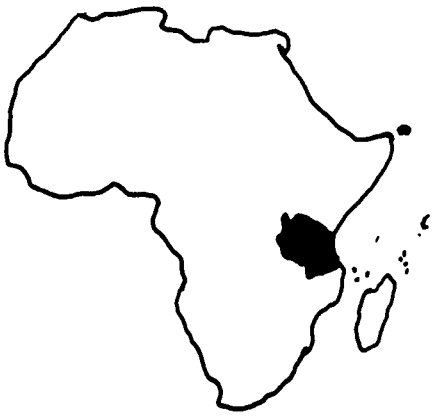

The Republic of Tanganyika in East Africa and the Island Republic of Zanzibar, off the coast of Tanganyika, joined to form a single nation, the United Republic of Tanzania, in 1964. Dar-es-Salaam is its capital.

Tanzania is 364,886 square miles in area, roughly three times the size of New Mexico. Its population in 1984 was estimated at just over 21 million. Famed Mt. Kilimanjaro, 19,340 feet, is the highest point in Tanzania—indeed, in all of Africa.

schools, shops, medical care, and drilled wells in all the ujamaa villages, the voluntary resettlement made only slow progress. In order to speed up migration, the government made further offers: free transportation to the collectives, free building materials, free food until the first crop was harvested, free agricultural machinery, and access to credit on favorable terms.

But in spite of the government's enticements and intensified propaganda campaigns, the peasants were reluctant to move into the collectives. By 1974 only 2.5 million people had settled in the ujamaa villages. The government had to choose between accepting a situation in which only 20 per cent of the resettlement program had been carried out, or abandoning the principle of voluntarism. The Tanzanian government chose to apply brute force—the same policy that all socialist governments have used against their peasant populations. During the two following years, more than 10 million peasants were forcibly moved into the ujamaa villages. In order to prevent peasants from returning to their homes, many of their old settlements were burned.

Despite the fact that fully 90 per cent of Tanzania's farmers were moved to collectives, the plans for agricultural socialism remain only dreams. Today perhaps a dozen of the 8,000

private property. This total collapse of the socialist plans in many ways corresponds to similar retreats in China and Vietnam.

The forced collectivization engendered distrust and bitterness among the peasants, which led to a sharp decline in workers' morale. When the government further mistreated the peasants by instituting price controls on agricultural products, most peasants reacted by producing only for their own needs. Those peasants with surpluses tried to sell them on the black market. Such illegal markets, where consumers have to pay substantial premiums to compensate sellers for the risks of punishment, are the inevitable result of price controls. As Ludwig von Mises wrote: "Economics does not say that isolated government interference with the prices of only one commodity or a few commodities is unfair, bad, or unfeasible. It says that such interference produces results contrary to its purpose, that it makes conditions worse, not better, *from the point of view of the government and those backing its interference.*"[2]

Price controls also led to smuggling. Peasants living near the border tried to smuggle their surpluses into neighboring countries, where prices usually were many times higher than the controlled domestic prices. In its efforts to stop the smuggling, the Tanzanian government closed the border to Kenya in 1977 (it was partly re-

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was the greatest food exporter in Africa. The forced collectivization, completed in 1976, was a mortal blow to production. By 1980 Tanzania had to import no less than half its food. In a few years the country had gone from the greatest exporter to the greatest importer of food in Africa. (Similarly, Russia before the socialist revolution was the greatest exporter of food in the world; now it is the greatest importer.)

Tanzania's socialist policies took a particularly heavy toll on its ability to produce export commodities. The producion of sisal (a fiber used in twine) shrank from 226,000 tons in 1970 to 47,000 tons in 1983. Because of shrinking export incomes, and the need to import food, very little foreign exchange was left to pay for other needed imports—raw materials, machinery, fuel, spare parts. As a result of these shortages, only 25 per cent of industrial capacity could be used, and the lack of fuel and spare parts for motor vehicles caused a virtual breakdown in transportation. Without transportation, food surpluses produced in the countryside very often were left to rot. Electricity production, railway transportation, and telephone communications were also hard hit.

By the 1980s, the Tanzanian economy had collapsed. After a visit to Tanzania in 1982, a Norwegian radio commentator offered the following description:

"On days when bread was delivered to the stores, people had to line up for hours. Even commodities like soap, toothpaste, salt, flour, cooking oil, batteries and bandages were lacking. People starve, and starving people get desperate. When I visited Tanzania in 1974 many things were lacking, too, but people still had optimism and enthusiasm. They listened to President Nyerere: If they worked harder, the future would be better. Now the President's calls have lost their magic; people are resigned. The brutal truth is that the policy of President Nyerere has completely failed . . . The Tanzanians are unable to manage the many state enterprises, and today production is only 30 per cent of its volume a few years ago."[3]

Seldom has the gap between rosy dreams and dismal realities been wider than in socialist Tanzania. For example, in the Arusha Delcaration of 1967, President Nyerere proclaimed:

"In order to maintain our independence and our people's freedom we ought to be self-reliant in every possible way and avoid depending upon other countries for assistance . . . Because the economy of Tanzania depends and will continue to depend on agriculture and animal husbandry, Tanzanians can live well without depending on help from outside if they use their land properly."

The truth is that no country ever has received more aid per capita than Tanzania. In the economic bankruptcy brought on by socialism, national begging had to be substituted for national pride.

Socialist governments everywhere build their power upon support from the industrial and urban populations—a support that often is paid for with the promise of cheap food. And food prices are held down by price controls, which oppress and exploit the peasants, and lead to eventual shortages. These agricultural policies in socialist states have been analyzed and described by economists like Michael Lipton and Theodore Schultz.[4]

Leaders in all socialist states maintain that their chief objective is to help and support the poor. In Tanzania this message was given special emphasis by President Nyerere.

In reality, however, socialists everywhere have pursued an opposite policy, favoring the prosperous and strong—the industrial workers, the police, the soldiers, the bureaucracy—and oppressing and plundering the poorest and weakest members of the population, the peasants. □

1. Julius Nyerere, Inaugural Address to Parliament on December 10, 1962. Quotations from Julius K. Nyerere, *Freedom and Unity: A Selection from Writings and Speeches 1952-1965* (London: Oxford University Press, 1967.)
2. Ludwig von Mises: *Human Action: A Treatise on Economics* (New Haven: Yale University Press, 1949, p.758).
3. Swein Wiel Jorgensen, *Okonomisk Rapport*, October 1982.
4. Michael Lipton, *Why Poor People Stay Poor: Urban Bias in World Development* (London: Temple Smith, 1977) and Theodore Schultz, *Economic Growth and Agriculture* (New York: McGraw Hill, 1968).

Copies of Professor Rydenfelt's **A Pattern for Failure: Socialist Economies in Crisis,** are available from The Foundation for Economic Education, 30 South Broadway, Irvington-on-Hudson, New York 10533 at $9.95 each.

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Insolvency and Bankruptcy Law

by Dennis Bechara

At one time in history, society regarded those who applied for bankruptcy relief as defrauders, and, in some instances, as criminals. Bankrupts were the object of social sanctions, and in many cases they had to leave their area of employment for fear of further societal punishments. The origin of the word bankruptcy itself is indicative of the attitude toward bankrupts. In medieval Venice, merchants conducted their business affairs in public places, and they usually brought their own benches where they could rest during the course of the day. If a merchant were unable to pay his debts, his creditors would proceed to break down his bench, symbolizing the bankrupt's exclusion from the business community. The word bankrupt comes from the Italian *banca rotta,* or broken bench.

Governmental attitude toward bankruptcy has evolved over the years to the point where today many no longer consider it a socially objectionable form of behavior. Perhaps reflecting America's more permissive values, filing for bankruptcy protection has become a growth industry. Consumers and corporations have discovered the advantages of bankruptcy relief. Many individuals who overextended their credit and no longer can meet their obligations have filed bankruptcy petitions. Some corporations have also obtained bankruptcy protection as a means of unilaterally breaking executory contracts or of dealing with a variety of pending lawsuits.

Mr. Bechara, an attorney, is a frequent contributor to The Freeman.

Recent developments in the area of bankruptcy, however, indicate that the boom in bankruptcy filings may already have reached its limits. Before analyzing the nature of these changes, however, it will be instructive to take a brief look at the development of bankruptcy in the United States.

At the time the Constitution of the United States was adopted, bankruptcy law differed among the various states. The framers of the Constitution felt that it would benefit the country if these differences were eliminated, so they inserted in section 8 of Article I of the Constitution a clause granting Congress the power to establish "uniform laws on the subject of bankruptcies throughout the United States." This delegation of authority to Congress, however, did not require the enactment of a bankruptcy code nor the discharge of debts. In fact, although having the power to enact a bankruptcy statute, Congress did so only sporadically during the nineteenth century. Most of the bankruptcy statutes enacted during this time were motivated by financial panics. After the effects of these business cycles had subsided, the statutes usually were repealed. Overall, prior to 1898, Federal bankruptcy statutes were in effect for less than a total of twenty years.

It has been said that the Panic of 1893 was ultimately responsible for the enactment of the Bankruptcy Act of 1898. This statute dealt with liquidations, and provided the mechanism for bankrupts to place their nonexempt assets in the hands of a trustee who, in turn, was charged with liquidating them and paying off the debts

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in accordance with a priority schedule. The 1898 Act, in turn, was amended in 1938 by the Chandler Act, which introduced the reorganization aspect to bankruptcy. Reorganization is the method by which a going concern restructures itself so as to continue in business after the closing of the bankruptcy case. This bankruptcy statute was left in effect until the Bankruptcy Reform Act of 1978.

During the 1960s and 1970s a number of factors led Congress to conclude that the existing Bankruptcy Code was inadequate to meet the needs of the country. The growth in consumer credit had led to an increase in bankruptcy filings. To grasp the magnitude of this expansion, one should consider that in 1960 total consumer credit was $56 billion, whereas by 1977 it had increased to $289 billion. This expansion was partly responsible for a record 224,354 consumer bankruptcy filings in 1975. The increase in the number of bankruptcies tested the ability of the bankruptcy court system as it was then organized.

As a result of these developments, Congress enacted the Bankruptcy Reform Act of 1978. This statute restructured the organization of bankruptcy courts, and contained substantive amendments which liberalized the ability of consumers and corporations to file for bankruptcy relief. Perhaps symbolic of the changing attitude toward bankruptcy, the new statute referred to bankrupts as debtors, in an attempt to remove part of the stigma of being a bankrupt.

An Increase in Bankruptcies

There is considerable controversy over the effects of the 1978 amendments. There is no argument, however, that after enactment of the Bankruptcy Reform Act of 1978, the country experienced an increase of bankruptcy filings of historic proportions. The number of consumer bankruptcies, in particular, mushroomed. In fiscal 1980, the first year the 1978 statute was in effect, there was a 60 per cent increase of filings over the previous year, to a total of 314,856. By 1982, the number of individual bankruptcy cases exceeded 500,000.

The credit industry, alarmed at this development, commissioned a study of consumer bankruptcy. The study, commonly referred to as the Purdue Study, concluded that a significant number of consumers who had filed for bankruptcy relief could repay part of their debt out of future earnings. The study estimated that the amount of repayable debt discharged by the Bankruptcy Courts exceeded $1 billion per year. The credit industry faulted the 1978 amendments because of the newly acquired ability of many debtors to choose a no-asset Chapter 7 liquidation.

It is no secret that the vast majority of consumer bankruptcies are "no-asset" cases. This means that after all property that is exempt from liquidation is accounted for, there usually are no assets remaining for the benefit of creditors. In a typical Chapter 7 case, a trustee is appointed by the Bankruptcy Court to liquidate the debtor's nonexempt property and to distribute it in accordance with statutory priorities. Unsecured creditors share proportionately in the assets that may remain after the creditors who enjoy the statutory priority have received payment. In return for this, the debtor, provided he has not committed fraud or otherwise waived the right, will be discharged from most of his liabilities, even though the creditors received only a fraction of their claims. Any assets that the debtor may acquire after the filing of the bankruptcy petition, including wages, are beyond the reach of most pre-petition creditors. The Purdue study found that many of the debtors who filed for Chapter 7 liquidation were employed and could have paid off a substantial amount of their outstanding liabilities over a period of several years.

In view of the growing concern over the expansion of bankruptcy cases, Congress began to consider whether further amendments were needed. The movement toward reform, however, was delayed by another development. This was the Supreme Court's decision in the case of *Northern Pipeline Construction Co. v. Marathon Pipeline Co.*[1] The Supreme Court held that the 1978 amendments violated the Constitution because bankruptcy judges, while enjoying broad judicial powers, were not assured of the judicial independence mandated by the Constitution in the form of lifetime appointments and salary protection.

The controversy over the 1978 amendments was not restricted to consumer bankruptcies and judicial appointments, however. Many corpora-

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tions took advantage of the new provisions of the law as well. Prior to the amendments, a company that desired to file for bankruptcy protection had to be insolvent. Finding that a showing of insolvency was too cumbersome, Congress deleted this requirement in the 1978 amendments. In addition, trustees no longer have to be appointed in every Chapter 11 case, and the management of a company that files for reorganization under Chapter 11 may remain in charge of the corporation unless it engages in reprehensible conduct. In light of these provisions, some corporations began to consider bankruptcy as a means to avoid some of their liabilities and contractual obligations.

One of the immediate effects of filing for bankruptcy is that all creditors must stop their collection actions against the debtor. If a creditor already has obtained a judgment against the debtor, the bankruptcy case prevents a creditor from enforcing this judgment. Similarly, all claims against a debtor that arose before the commencement of the bankruptcy case must be handled in accordance with the Bankruptcy Code. This is known as the automatic stay. There are exceptions to the automatic stay, however. For example, the automatic stay does not shield debtors from criminal prosecutions, from the collection of alimony maintenance and support obligations, from tax deficiencies or from the exercise of the government's police and regulatory powers.

The Johns-Manville Case

The first company to achieve notoriety in taking advantage of the 1978 amendments was Johns-Manville Corporation. This corporation filed a petition for reorganization under Chapter 11 on August 20, 1982. At the time of filing, the corporation's net worth exceeded $1 billion. The reason for filing for bankruptcy was that 16,500 lawsuits already had been filed against the company, alleging liability because of asbestos-related injuries. The company estimated that at the rate of 425 new lawsuits monthly, up to 52,000 lawsuits were expected to be filed, creating a potential liability of up to $2 billion. In addition, the company may be liable for unforeseen liabilities since the victims of asbestos exposure may not develop any symptoms for a prolonged period of time. Since the Bankruptcy Code requires that all unmatured claims be accelerated, and that all contingent, disputed, and unliquidated claims be liquidated, the filing of the petition will aid in putting an end to the uncertainties facing the company.

Other industries also have utilized the bankruptcy route to resolve their liabilities. For example, Amatex Corporation filed for bankruptcy protection in November, 1982, in light of the fact that it was defending itself against 10,000 lawsuits. Similarly, in August, 1985, A. H. Robins filed for bankruptcy since at the time of filing there were 5,000 lawsuits pending, and the company estimated up to 300,000 claims to be filed.

Another provision of the Bankruptcy Code that aids corporations in their reorganization efforts is the ability to unilaterally reject certain executory contracts which are burdensome. Subject to court approval, it is generally left to the debtor to decide whether or not those contracts should be assumed or rejected. A lease is an example of a contract that a debtor may wish to cancel. A debtor may reduce the scope of its operations and therefore may not need as much leased space as it is obligated to pay for under the rental agreement. This provision of the Bankruptcy Code permits adjustments in these contracts.

In light of the fact that insolvency was no longer required for a business entity to file for bankruptcy protection, some corporations that were saddled with what they considered to be burdensome contracts considered the possibility of filing for bankruptcy relief in order to cancel those contracts. The one area that created the most controversy was the rejection of collective bargaining agreements. Wilson Foods Corporation, the fifth largest meat packer in the United States, filed a Chapter 11 reorganization petition on April 22, 1983. It then rejected its collective bargaining agreement which covered 6,000 employees, and reduced wages between 40 to 50 per cent. The company's net worth at the time of filing exceeded $67 million. Similarly, on September 24, 1983, Continental Air Lines filed for bankruptcy relief, rejected its collective bargaining agreement, and laid off 12,000 employees. Two days later, 4,200 employees were reinstated at half their salaries.

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The Supreme Court, in the 1984 case of *NLRB v. Bildisco & Bildisco*,[2] agreed with the interpretation that collective bargaining agreements may be rejected "if the debtor can show that the collective bargaining agreement burdens the estate, and that after careful scrutiny, the equities balance in favor of rejecting the labor contract."

Because of the expansion in consumer bankruptcies, the Supreme Court's decisions in *Marathon* and *Bildisco*, and the proliferation of business bankruptcies to avoid liabilities, Congress enacted the Bankruptcy Amendments and Federal Judgeship Act of 1984, which went into effect on July 10, 1984. The 1984 statute reformed some aspects of consumer and business bankruptcies, and also took care of the constitutional objections to the structure of the Bankruptcy Courts.

Consumer Bankruptcies

One of the amendments enacted by the 1984 statute relates to consumer bankruptcies. Under the new provisions, Bankruptcy Courts are empowered to dismiss Chapter 7 petitions where the debts are primarily consumer debts if it is determined that the filing of those petitions constitutes a substantial abuse. The purpose of this new provision is to eliminate the previous unfettered discretion debtors had of filing for protection under Chapter 7, and to encourage those debtors who still want to file for bankruptcy protection to do so under Chapter 13 of the Bankruptcy Code. Under Chapter 13, the debtor must propose a debt adjustment plan under which payments out of future earnings will be made to creditors. The plan must, however, be approved by the Bankruptcy Court and the payment period may last from three to five years. The discharge of debts, after completion of the plan, is broader than under Chapter 7. The 1984 statute also requires that in making payments, a debtor must use all his disposable income, unless the unsecured creditors are paid in full. The 1984 amendments eliminate the past practice of Chapter 13 plans where debtors paid a minimal amount.

Although the thrust of the 1984 amendments is to encourage debtors to pay as much as possible, there are some troubling aspects to the law. For example, only the court, and not the creditors, may raise the issue of whether a debtor is committing a substantial abuse in filing a Chapter 7 petition. This can deprive the court of the information creditors may be able to bring forth. In addition, given the large number of consumer bankruptcies, it is doubtful if a court always will have the time to gather the information needed to decide if Chapter 7 is the appropriate mechanism. Finally, a question may be raised as to the court's appearance of fairness, since the debtor would have to present evidence to refute the court's assertion of substantial abuse, and the court would have the power to decide the issue.

The 1984 amendments also tightened some other areas. For example, the amount of exempt property has been restricted. A waiting period has been added to prevent an immediate refiling of a petition when the previous case had been dismissed either voluntarily or by the court. Similarly, in order to prevent shopping sprees prior to the filing of a petition, no more than $500 in credit for luxury goods and services owed to a single creditor may be incurred by debtors if such debts were incurred within 45 days before the filing of the bankruptcy petition. In addition, there are now time limits during which unexpired leases of nonresidential real property may be assumed or rejected.

Although the ability of debtors to shield themselves from lawsuits through the use of bankruptcy was left intact, the 1984 statute did limit the ability of businesses to reject collective bargaining agreements. *Bildisco* was overruled by the statute, and certain procedural and substantive standards must be met prior to a court granting approval of a rejection of a collective bargaining agreement.

Although recent developments indicate that the tide has turned against the debtors' perceived abuse of the bankruptcy system, the problems still exist. In the area of business bankruptcy, the delays in the processing of bankruptcy petitions harm creditors. It is not unusual for a reorganization plan proposed by a debtor under Chapter 11 to take one or two years before it is finally confirmed by the court. During this time, creditors cannot remove their assets or invest them in a more productive venture. Similarly, there sometimes are conflicts

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We should reassess whether it is a proper function of government to reorganize businesses.

between secured and unsecured creditors. A secured creditor, for example, may wish to dispose of the property in which he has a security interest in order to recover the amount owed. Unsecured creditors, however, may oppose this proposal because the disposal of the property may amount to a liquidation of the business, thereby eliminating any opportunity for recovery of their debts. Or, a secured creditor may feel that the property upon which he has a security interest is depreciating or is being consumed at a rate that will reduce the value of his security interest. Although the Bankruptcy Code allows secured creditors the opportunity to obtain "adequate protection" from some of these developments, it is not altogether clear that secured creditors are able to realize the market value of their security interest.

There is no question that bankruptcy tends to reward the irresponsible and the profligate. However, a free society must have a creditor-distribution system to take insolvency into account. When a debtor becomes insolvent, that is when liabilities exceed assets, there must be a system to treat all creditors fairly. In fact, a bankruptcy system that would concern itself with creditor distribution issues is to the benefit of creditors in general. This is because in the absence of a bankruptcy system, creditors would engage in a race to the courthouse whenever they may fear that a debtor is insolvent. A system that would allow such a race would benefit some creditors at the expense of other creditors. In addition, the race to the courthouse may prematurely terminate an ongoing business, reducing the probabilities of recovery to other creditors. The absence of a bankruptcy system would be detrimental to creditors in general and would raise the cost of credit to debtors.

The present system, however, goes beyond the distribution of debtors' assets to creditors. The Bankruptcy Code also contains provisions aimed at fostering the reorganization of failed business enterprises. As we have seen, approval of these plans takes time, and some creditors benefit at the expense of others in reorganizations. We should reassess whether it is a proper function of government to reorganize businesses. If a business has failed to adequately meet consumer demands, it is questionable whether the government should veto the market and keep such an entity afloat. It is one thing to set up a system which liquidates assets of insolvent debtors and distributes them to their creditors. It is altogether different when the government meddles into how a business should be structured and whether or not it should be allowed to survive.

In addition, the relief sought by those who file for protection under bankruptcy may have the effects of encouraging more bankruptcies. This, in turn, raises the cost of credit for all. Although a debtor should be allowed a fresh start after bankruptcy, a discharge of debts is too strong a remedy.

The removal of the insolvency requirement in business bankruptcies has led to the inequitable result that some companies, notably those with potential liability in the billions of dollars, may successfully shield themselves from lawsuits by filing for bankruptcy. A Bankruptcy Court may place limits on a debtor's potential liability since it may be interested in preserving the business as an ongoing concern. This only injures the debtor's claimants.

The 1984 amendments reveal a trend in cutting back some of the advantages debtors obtained by filing for bankruptcy relief. There is clearly a need for further revision. In a recent case, the Supreme Court has involved itself in this trend as well. In this case, it was held that a debtor may not avail himself of the Bankruptcy Code in order to violate "a state statute or regulation that is reasonably designed to protect the public health or safety from identified hazards."[3] True bankruptcy reform, after all, may not be that far away. □

1. 458 U.S. 50 (1982).
2. 465 U.S. 513 (1984).
3. *Midlantic National Bank v. New Jersey Department of Environmental Protection*, 88 L Ed. 2d 859, 869 (1986).

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Readers' Forum

To the Editors:

J.D. Steelman's essay, "Deregulation of the Natural Gas Industry," (June 1986) interestingly describes some of the revolutionary changes taking place as the gas industry breaks out of its decades-old regulatory straitjacket. Out of the distortions of shortage and surplus that have affected the production, transmission, and distribution phases of this industry for over a decade, new institutions and business practices have been developing that seen as a whole make up what F.A. Hayek calls "spontaneous order." But unlike the impression given in this essay, there is still significant regulation and much to resolve before a free market can be said to reign in the gas industry.

In response to growing market forces and distortions requiring market solutions, the Federal Economic Regulatory Commission (FERC) has faced the age-old regulatory question—more regulation or less regulation. (This is not new; the past of industry regulation has been closing one regulatory gap after another.) Beginning with self-help transportation programs in the 1970s to move gas from surplus areas to shortage areas, the FERC has been pragmatically deregulating piecemeal to create a greater role for market forces. As competitive forces snowballed, propelled by the gas surpluses of the 1980s, the FERC was forced to overhaul the Natural Gas Act of 1938 with Order 436 of October 1985 which Mr. Steelman refers to. Importantly, this overhaul is not deregulatory although certain provisions such as relaxed certification for entry and exit tend to be. Order 436 substitutes new regulation for relaxed regulation and magnifies existing industry problems.

A particularly onerous provision forces interstate pipelines to accept all transportation requests by outsiders (whether producers, brokers, pipelines, or end-users) whether or not there is capacity or whether the pipeline wishes to do so. By removing pipeline "monopoly power," it is believed, mandatory contract carriage makes the industry more competitive and lowers prices for consumers. At the same time end-user contracts are incrementally terminated (begun previously by Order 380 of May 1984 and Opinion 238 of July 1985) which leaves pipelines in the predicament of holding unmarketable high-take, high-price producer contracts entered into on the basis of voided end-user "minimum-bill" commitments. There are many distortions in the making from the new regulation of Order 436 that cannot be presented here, but let it be said that pipeline regulation (not to mention partial wellhead regulation, conservation laws, and comprehensive distribution company regulation) remains a powerful force in the natural gas business environment.

I make these points in regard to Mr. Steelman's article not as an end in itself but in the hope of interesting young "Austrian" economists (who are increasingly populating graduate economics programs around the country) to examine the insightful history of natural gas intervention to teach us more. I single out Austrianism for this topic for good reason. So far only neoclassical economists and industry-

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related observers have interpreted the story. Yet there are many Austrian themes that are vital for understanding, such as the interrelationships (dynamics) of industry intervention, the development of new market institutions and spontaneous order in relation to regulatory and market changes, and the role of integration, nonaccess, and cooperation (as opposed to free access and rivalry) in market coordination and efficiency.

—Robert Bradley, Jr.

Mr. Steelman replies:

Mr. Bradley's ideas were most thought provoking. I do not disagree with his proposition that the natural gas industry is still a regulated industry—so is every industry in the United States. Those industries not regulated by a commission such as the FERC, FCC, FAA or the like, are subject to antitrust laws and other laws. Although I prefer the free market approach of Mises, Hayek, and the Austrian economists the issue in today's environment is whether the regulations give one a long or short leash. Certainly regulation of the natural gas industry is being relaxed in comparison to the comprehensive wellhead to burner tip regulation that had existed. Market forces are being allowed to have much more of an impact on the industry. Meaningful deregulation is a possibility. However, neither the FERC nor the state regulations on natural gas are being relaxed rapidly enough. The concluding paragraph of my article called for acceleration of deregulation not merely a relaxation of regulations.

At the time I wrote my article, Order No. 436 had all the makings of a comprehensive deregulation order, as did Order No. 451 when it was first proposed by the Department of Energy; subsequently, the picture became muddled. In my opinion, Order Nos. 436 and 451, as now being finalized, are causing chaos in the industry and the marketplace. The result among virtually everyone I know in the industry is a preference for comprehensive legislation deregulating the industry (this in itself is a radical departure by the industry from past positions). Not only is the natural gas industry desirous of greater flexibility within the industry, it also must have greater flexibility to compete with energy substitutes that are less regulated than natural gas. This more than anything else was the impression I meant to convey—the marketplace is de facto deregulating and beginning to operate like a competitive marketplace. Entrepreneurs and managers have acknowledged by their actions that the natural gas industry is subject to competition like any other industry and they are responding accordingly.

In summary, I believe the industry is beginning to function more like a competitive marketplace than a regulated public utility and that the industry will continue to seek the removal of marketplace barriers. Regulation will be relaxed, though it is unlikely that the FERC or state regulatory commissions will be abolished. Nor do I believe that the Natural Gas Act or even the Natural Gas Policy Act will be repealed in the foreseeable future. However, I do believe that there will be forthcoming further relaxation in regulations and perhaps some real deregulation. This will allow a more competitive and efficient natural gas market to evolve and will be healthy for both the natural gas industry and the marketplace.

—J.D. Steelman

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A REVIEWER'S
NOTEBOOK

Congress and the Welfare State

by John Chamberlain

Forty Years Against the Tide: Congress and the Welfare State, by Senator Carl T. Curtis and Regis Courtemanche (Chicago: Regnery Gateway, 443 pp., $18.95), is the sort of autobiography of a public figure that Albert Jay Nock, a believer in personal privacy, would have welcomed. As co-author of this memoir, Curtis, who was a Nebraska representative in the House and Senate from 1938 to 1979, never refers to himself in the first person. There is practically nothing about his family life. In reading the book one recalls the remark made by the wife of Frederic Howe, the pre-World War I reformer, when she read the manuscript of her husband's autobiography. "But Fred," she asked, "weren't you ever married?"

Because of the lack of personal detail in this book one never really sees Carl Curtis. (Russell Kirk's introduction makes up for some of the deficiency.) What one does see is a forty-year panorama of the coming of the Welfare State. The book is certainly sound as history.

As a man of principle, Carl Curtis opposed the growth of the Welfare State philosophy at considerable danger to his own career. It was not that he was against welfare if it had been limited to succoring those who were, for one reason or another, unable to do anything for themselves. But the trouble with welfare, as it developed in a land of competing pressure groups, was that it led the politicians to flood the country with paper money that was far in excess of anything connected with natural productivity. The scramble for this inflationary money created most of the problems that Curtis tried, with considerable pertinacity but little success, to solve by legislation.

Senator Carl T. Curtis

Unpopular Causes

The great thing about Carl Curtis is that he was always willing to risk his neck in support of unpopular causes. Nebraska is a grain-growing state, but Curtis was an early opponent of food stamp rackets that might have benefited individual farmers at the expense of the general taxpayers. He didn't like the sacred cow of the hot lunch program. The section in this book on

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"Our Daily Bread from the Government" turns into a tribute to Nebraskans, who kept returning Curtis to Washington by big majorities despite their obvious interest in disposing of the agricultural surplus at any cost.

As a member of the Select Committee that investigates labor rackets, Curtis was prominent in the movement that led to certain salutary improvements of the Taft-Hartley Act. He willingly took on the big labor bosses who wanted no truck with secret union elections. What puzzled Curtis was the selectivity of the Kennedy brothers, John and Bobby, when it came to seeking indictments of labor leaders who countenanced the use of goons in labor disputes. Bobby Kennedy, as Attorney General, was indefatigable in his pursuit of Jimmy Hoffa of the Teamsters Union. But it was a "no-no" when the Kennedys were asked to do something about the United Automobile Workers' conduct of the strike against the Kohler Company of Wisconsin. There were plenty of instances of goon-squad violence on the part of the UAW in Toledo, Ohio, Buffalo, New York, and Kohler, Wisconsin, but Walter Reuther, the boss of the UAW, led a charmed life when subjected to Curtis's questioning. The Kennedys wouldn't touch Reuther.

When Curtis took a leading part in pushing the investigations of Bobby Baker, who became incredibly rich as chief aide to Senator Lyndon Johnson, he led with his chin. For his temerity in the Baker investigations and in his role in exposing the fraudulent mortgage racket of Billie Sol Estes in Texas, Curtis was marked out for purging by Lyndon Johnson. But the Nebraska voters resisted Johnson's maneuverings to get Curtis out of Washington.

Social Security

Curtis even survived the wrath of the elderly when he openly called Social Security funding into serious question. Curtis doubted the actuarial soundness of a system that certainly wasn't true insurance. But the young came to Curtis's rescue, giving him the votes to counteract elderly defections. The young believed him when he pointed out that there were some twenty-two million persons paying Social Security taxes who did not have enough income to pay income taxes.

As one who believed in accentuating the positive, Curtis pushed the idea of the Individual Retirement Account, or IRA. The IRA legislation should have had his name attached to it. Senator Russell Long commended Curtis for his persistence in bringing the "true savings" of IRA into existence as an "antidote to the burdens imposed by Social Security and other taxation."

Curtis was willing to go to the federal government for help in providing flood control and irrigation for his Nebraska constituency. On the value of irrigation Curtis said "we must not let our natural resources go to waste." Since the Missouri River system drains one-sixth of the United States, Curtis regarded such things as the Flood Control Act of 1944 a legitimate national concern. It can certainly be argued that support of irrigation as a national expense is not consonant with Curtis's general feeling that individuals and states should take care of themselves. But consistency here would never have sent Curtis to Washington, where for years he was such a force for good. □

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Man tends to follow the lines of least resistance to satisfy his desires. He will stoop for the property of others if the government encourages him, and will stoop for power over the lives of others if the government grants him that special privilege. Remove these appeals to man's avarice and, having nothing to stoop for, he will stand upright.

Leonard E. Read
1898 — 1983

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